Nestor Healthcare Group plc

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Annual Report and Accounts 2007

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Group at a glance

Nestor Healthcare Group plc is an independent organisation dedicated to delivering services to the health and social care market We deliver managed services, through our partner organisations and direct to individuals, focused on meeting a person's needs and thereby enhancing their wellbeing.

Our emphasis on person-centred, effective solutions makes us a strong partner providing short- or long-term health and social care for the community Established in 1949, we employ a nationwide workforce, managed and deployed from our network of local offices.

Social Care describes the care of people, of all ages, which meets their common human needs to enable a certain quality of life We deliver managed services to those in need of care at home in order to allow people to live, as fully as possible, a life of their choosing The services are provided through Local Authorities, Primary Care Trusts or direct to the individual

- We deliver more than 16 million hours of care annually
- We provide care to over 30,000 individual service users supported by over 16,000 careworkers

Primary Care is usually the first point of contact for patients Primary Care Trusts and Local Health Boards plan and commission health care services for their local communities Governments' agendas continue to drive towards an environment of quality care and choice for all individuals

- We are responsible for the healthcare of 12% of the UK's population outside of standard business hours
- We are the UK's largest provider of healthcare services to secure institutions and Police Authorities

Chairman's statement

Introduction

The completion of the rights issue in March 2007 alleviated the high debt burden on the Group and provided the opportunity to invest in Social Care acquisitions, of which seven were completed in 2007 At the same time we have invested in enhancing our management strength in both Social Care and Primary Care It is disappointing to report, as previously announced, that whilst the acquisitions made in 2007 have made good returns, the profit performance of our core domiciliary care business within Social Care and the anticipated growth in Primary Care, have both fallen short of our expectations These are being addressed by further strengthening the management, taking business development initiatives and reducing costs, but without compromising service delivery standards, which have been maintained at a high level throughout The issues underlying these results are discussed in more detail below

As detailed in the trading statement issued in November 2007, the downwards revision in the projected profit performance led to the decision to renegotiate one of our banking covenants The Group did not breach any of its banking covenants during this period and in order to ensure that this remained the case, we announced in December that agreement had been reached with our banking syndicate to increase the ratio of net debt to EBITDA covenant to four times Given the banking climate at the time this was an expensive process with a significant increase in the margin paid and an arrangement fee of £0 7m, which, for the purposes of comparison to the previous year's trading performance, has been shown separately in the table below

Results summary

	2007	2006
Continuing operations		
Revenue	**£179 6m**	£172 6m
Operating profit	**£13 1m**	£18 6m
Profit before tax	**£8 9m**	£13 8m
Basic earnings per share	**5 4p**	10 3p
Loss from discontinued operations	–	£(20 5m)

The results of Healthcare Staffing, the activity of which was demerged in 2006, were reported as "discontinued operations" in last year's results and comprised a goodwill write down of £14 5m, plus trading losses and the cost of the demerger process

Results from continuing operations

	2007 Revenue	**2007 Operating profit**	2006 Revenue	2006 Operating profit
Social Care	**£124 2m**	**£10 4m**	£111 4m	£14 2m
Primary Care	**£55 4m**	**£3 4m**	£61 2m	£4 4m
Banking fee	**–**	**£(0 7m)**	–	–
Total	**£179 6m**	**£13 1m**	£172 6m	£18 6m

Social Care

These business units provide community services, primarily homecare, to Local Authorities and private patients through a network of 115 owned branches with a further 123 franchised branches branded as Carewatch

The growth in revenue in 2007 is largely attributable to the input from acquisitions as well as the commencement of the Hertfordshire contract with effect from 1st February The Hertfordshire contract is for seven years with an opportunity to extend for a further three Sales to Hertfordshire in the 11 months totalled £6 9m, and in the period the contract recorded a loss of £0 3m, which included redundancy payments of £0 4m As previously reported, the complexity of the contract, and the inherited issues around terms of employment and work practices, were considerably more difficult to manage than anticipated The workforce, originally the subject of a TUPE transfer from Hertfordshire County Council, were entitled to payment for guaranteed hours far in excess of the actual work available and hours worked This imbalance caused the contract to be loss-making in the early months of our management However the overall performance in the first year still met our original expectations, as good progress was made in tackling the above issues whilst maintaining a satisfactory service quality

The contract became increasingly profitable in the fourth quarter This improvement has continued into 2008 with the first two months showing increasing hours and profitability and the contract is expected to be an important contributor to profit throughout 2008 and beyond

Social Care margin reduced from 12 7% in 2006 to 8 4% in 2007 The 2006 profit margin benefited by nearly 2% from the trading and subsequent disposal of our shareholding in CM2000, a call monitoring software business, and the margin in 2007 was reduced by nearly 1% by the early stage losses in Hertfordshire The remaining margin shortfall of 1 5% is attributable to the performance of the Goldsborough / Medico domiciliary care business where turnover, excluding Hertfordshire and acquisitions, was down £2 8m on 2006 This shortfall was due to variation in branch performance in meeting profit expectations and in securing the necessary care workers to meet contract demands In addition the continued pressure on Local Authority budgets led to a curtailment of expenditure on some of the less complex care needs of our service users

This variation in branch performance was one of the main catalysts for the change in management structure effected in Social Care during the second half of 2007, with the appointment of a new Managing Director and the establishment of four Regional Director roles The early signs are encouraging, with a number of tender gains in recent months, the largest being a series of "block" contracts with Surrey County Council with up to 5,000 hours per week available and scheduled to commence in the second quarter of 2008 Greater focus is being placed on recruitment methods at the branch level as well as a number of other initiatives aimed at improving branch profitability The level of tender activity and the more consistent, disciplined management approach being applied has already started to deliver results and trading in the early part of 2008 has been ahead of management's expectation The Board is more optimistic for the performance of Goldsborough / Medico in 2008

A total of seven acquisitions were completed in 2007, two of which are specialist Learning Disabilities businesses, with the remaining five being geographic infills to the current Goldsborough / Medico branch network Overall the acquisitions are performing in line with our expectations with the Learning Disabilities businesses in particular producing very good returns

The Carewatch franchise business proved significantly more resilient than Goldsborough / Medico with volumes only marginally down on the previous year Our two privately funded homecare businesses, Country Cousins and Patricia White's, both had excellent years and are well placed to continue their growth during 2008

Primary Care

Primary Care comprises Primecare Primary Care, which provides unscheduled care services to Primary Care Trusts (PCTs) and out-of-hours services to GPs, and Forensic Medical, which delivers primary care services in secure environments and to Police Authorities

Primary Care's reported operating profit shows a reduction of £1 0m from the previous year The reduction is wholly attributable to the investment made in additional management at the divisional level, particularly in Business Development, to better address the expected increase in tender opportunities as the reorganisation of PCTs was finalised It was not until the final quarter of 2007 that these opportunities began to emerge and our experience of those tenders has to date been disappointing as PCT commissioners continue to favour the retention of a form of "in-house" provision In addition PCTs are seeking more complex, "around the clock solutions", rather than delineating between in-hours and out-of-hours service provision Given that the assets of the Primary Care business, particularly the Birmingham clinical response centre, are underutilised during the day, the prospect of providing a 24 hour service presents an attractive opportunity

There is currently a high level of tender activity, particularly in the operation of Urgent Care Centres, which are designed to reduce Accident and Emergency admissions, and we remain optimistic that, having learnt the lessons of the first round of tenders, our future submissions will more closely fit the customer's requirement whilst continuing to be highly competitive

Despite a reduction in revenue in 2007, Primecare Primary Care continued to make improvements in efficiencies and the productivity of its clinical resource These cost reductions have been achieved with no impairment of the quality of service, which we believe is amongst the best in the sector

Although Primecare Primary Care did not win any significantly large tenders in 2007, it has recently been successful in augmenting its business through a number of useful wins, most notably in February 2008 when Primecare, in partnership with Middlesbrough PCT and Redcar and Cleveland PCT, launched an innovative new GP service to provide patients with access to GPs from 8am to 8pm, seven days a week In addition our dental business has recently won two new contracts, which together are expected to generate revenues in excess of £1 0m per annum, and bring our total practices to seven

Forensic Medical profit performance was consistent with that achieved in the previous year There are a number of tender opportunities, particularly in the provision of forensic medical examiners to Police forces, where our experience of supporting our current customers should stand us in good stead

Cash flow

Year end net borrowings were £58 0m (year end 2006 £76 7m), a net inflow of £18 7m, which included the net proceeds from the rights issue of £30 5m The cost of acquisitions, including assumed liabilities, totalled £10 3m, with a further £3 2m potentially payable in 2008 under various deferred consideration arrangements The total acquisition spend in 2007 is in line with the indications given to shareholders at the time of the rights issue Cash flow from continuing operations totalled £8 1m (2006 £20 2m), with the reduction due to the lower level of profitability, the assumption and payment of liabilities with acquired businesses and a negative working capital impact The latter is driven by an increase in debtor days outstanding to 43 days compared to 37 days at the end of 2006 At the year end there were a number of debtor accounts with contractual queries, the majority of which have subsequently been resolved with a consequential reduction in debtor days to 39 at the end of February 2008

Bank facilities

The Group reduced its banking facilities to a total of £70 0m in December 2007 at the time of the change in the debt to EBITDA ratio covenant With no acquisition activity currently planned, these facilities, which are due for renegotiation in December 2009, are expected to be sufficient for current requirements

Taxation

The tax charge for the year was £3 1m (2006 £4 2m), equivalent to 34 6% of taxable profit (2006 30 6%) This was higher than the underlying rate of 30 0% primarily as a result of the inclusion of two one-off additions to the deferred tax charge arising from the change in the future tax rate to 28 0%, which reduces the value of our deferred tax asset and a reversal of credits previously taken relating to the potential future vesting of share awards

Dividends

The Board is recommending a final dividend of 1 0p per share (2006 2 0p) payable on 25th July 2008 to shareholders on the register on 27th June 2008 The final dividend is in addition to the interim dividend of 1 0p per share (2006 1 0p) paid in October 2007

Employees

This has been another very busy and testing year for Nestor's employees and, on behalf of the Board, I thank them all for their continuing hard work and dedication

Board changes

Stephen Booty will stand down as Chief Executive Officer at the end of this month after four years in his present role He has been instrumental in the reshaping of the Group to begin the process of strengthening management disciplines and focusing the Group on social and primary care activities and the Board thanks him for his significant contribution to Nestor He and the Board believe it is appropriate to seek to refresh the senior management of the Group to enhance its future growth, and the process of appointing a successor has commenced

The resignation of Ingrid Alexander as a non-executive director in March 2007 was reported in my statement last year

Unsolicited approaches

As previously announced, the Board received a number of approaches in the summer of 2007 and towards the end of the year, from parties interested in acquiring the Group As announced on 7th April 2008, these takeover talks have now been terminated as the Board believed that the proposed indicative offers did not provide sufficient value to shareholders These processes were inevitably a distraction to management and other employees, but the Board considered it in the best interests of shareholders to fully evaluate these opportunities

Outlook

2007 was a disappointing year for Nestor Action has been taken to enhance and improve our management in Social Care where our business has underperformed against the market and yet remains the largest provider by far I am optimistic that the more rigorous approach now being adopted will deliver better returns in the near term The issues in Primary Care are more strategic and it is clear that last year our approach to the market was not effective Management change is also being effected in this division to ensure the business is positioned to exploit the significant opportunities in the changing landscape for the delivery of primary care An improved performance will take longer to deliver in Primary Care but there is no shortage of current and expected new business opportunities, which may enable us to accelerate progress In the meantime all aspects of the Group's cost base are being addressed in order to produce the best possible results in 2008 whilst the operational improvements are realised

After a difficult 2007, the Board views the present trading with more optimism with the opportunities available in both business sectors to secure new contracts to underpin growth in 2008

John Rennocks
Chairman

10th April 2008

Operating review

Social Care – our markets and services

Our business

'Social Care' describes the care of people, of any age, which meets their common human needs and gives them a certain quality of life It also describes all types of care for a person that does not involve hospitalisation

Social Services' funds are allocated to sectors of the population such as older people, children and families, people with either learning or physical disabilities, mentally ill adults and asylum seekers Funds can also be allocated by the place and/or means of care, such as day and domiciliary care or residential provision

The market for the provision of care for individuals at home continues to grow with people living longer and the desire for individuals to lead their lives as independently as possible The growth in demand for these services is expected to continue as, in addition to the factors mentioned above, there remains a large cost saving compared to the treatment of an individual in a hospital environment

The services offered by our Social Care businesses

We offer a complete care service, from an initial assessment to determine the service user's needs, through to the delivery of the care directly to the service user This model of service means we are able to organise complex resource and delivery initiatives, managed locally to best meet the needs of those requiring social care services such as domestic, practical and personal care Whether care services are commissioned by public funds, through Local Authorities, or by a person privately, our focus is to provide a locally based, trained workforce able to meet the needs of our service users

Care for specialist sectors

Older people – providing older people with the best possible quality of care enables them to make choices about their quality of life Working together within the existing care network can provide what are sometimes very simple solutions Domestic services can provide assistance with nutrition, often through basic support tasks like accompanied shopping and helping prepare meals, whilst at the same time helping the individual to retain or regain key skills themselves We also offer enhanced services such as those for older people with physical disabilities, or specialist services for conditions like dementia or Alzheimer's

Children's and families' services – we provide support to children with learning or physical disabilities as well as where a child's parent or primary carer has social care needs, such as alcohol or drug dependency issues

Learning disabilities – our specialist services seek to provide increased independence and enable the best possible quality of life for people of all ages with learning disabilities Many individuals with severe and complex communication needs, sensory loss, and challenging behaviour, are supported by specialist care workers

Mental health services – specifically designed to meet the needs of service users who may have long-standing or transient mental health problems, including people subject to guardianship and supervision orders under the Mental Health Act

Social Care – review of the year

The profitability of our Social Care business fell back in 2007 to £10 4m from £14 2m in the previous year The results from 2006 included the profit on disposal, as well as the operating profit of the CM2000 business up to the date of its sale, in total this contributed £2 3m

The other major factor affecting last year's result was the commencement of the Hertfordshire contract, which was won by our Goldsborough business in November 2006 with the provision of care beginning in February 2007 At the time of announcing the winning of the contract it was made clear that we did not expect to make a return in the first year, given the complexities of the contract and the inevitable employment issues arising from the TUPE transfer of a large number of care workers and administrative staff In the 11 months to the end of December 2007 the contract recorded a loss of £0 3m, effectively a breakeven performance when taking account of the redundancy payments of £0 4m Not surprisingly the contract was loss-making in the early months of our management, but as the employment issues were tackled to deliver a better utilisation of the care worker resource, the contract became increasingly profitable in the fourth quarter of 2007 Overall we are pleased with this outcome and the relationship we have established with the Council particularly as the contract is for a term of seven years, with the potential for an extension for a further three years

The Hertfordshire contract is the largest individual contract managed by the Goldsborough / Medico branch network, which mainly provides support to older people living in their own homes The bulk of this activity is placed through Local Authorities where the continued pressure on budgets has led to the prioritisation of care for service users with more complex care needs Both 'needs' and 'means' testing have become increasingly stringent and many of the more domestic-type visits are no longer being funded

The performance of Goldsborough / Medico in 2007 was generally disappointing although many of our branches continue to deliver excellent returns despite the general market conditions and their own local issues This "outperformance" is invariably a function of the quality of local management, as well as the stability of the branch staff and the team of care workers However the overall performance of Goldsborough / Medico, together with the variance in branch performance, led to a significant change in management structure and personnel in the second half of the year, which saw the appointment of a new Managing Director and four Regional Directors The new team has brought a more methodical, consistent approach to the management of the business and progress is being made, particularly in the area of care worker recruitment where many more innovative initiatives are being employed with their relative success rates being properly measured

In the past year, the level of tender activity has been relatively subdued, with few major contracts available We were successful in winning a substantial piece of business in Wigan, which has commenced very successfully in recent weeks Tender opportunities have increased in the early months of 2008, and a number of gains have been achieved, the largest being a series of contracts in areas managed by Surrey County Council Fulfilling the total opportunity would add up to 5,000 hours per week, with the contract scheduled to commence in the second quarter of 2008

Goldsborough / Medico remains the largest care provider in the UK, with an excellent reputation for the quality of care it provides The progress made in recent months by the management team gives confidence that the business performance will steadily improve during 2008

The primary reason for raising funds from shareholders was to return to the acquisition of Social Care businesses, which was so successful in 2003 and 2004 Seven acquisitions were completed in 2007, five of which represented geographic infills to the Goldsborough / Medico branch network whilst the other two extended our expertise in Learning Disabilities Overall the acquisitions are performing in line with our expectations with the Learning Disabilities businesses in particular producing very good returns

Our franchise business, Carewatch, which operates in the same marketplace as Goldsborough / Medico, experienced the same market-related issues but delivered a significantly better performance, with volumes only slightly down on the previous year The Group's primary income from Carewatch is a management service fee based on the revenues earned by each franchise The franchisees' performance in 2007 demonstrates again the benefits to be gained from local market knowledge and in particular, the constant effort directed to the development of close working relationships with Local Authorities and with their own staff and care workers

Our two privately funded homecare businesses, Country Cousins and Patricia White's, both had excellent years and are well placed to continue their growth in both revenue and profitability in 2008 Both businesses largely rely on new business from "word of mouth" recommendations, which are testament to the high quality of the service provided The economic model differs from that of Goldsborough / Medico, as the private individual is responsible for the payment of the care worker or companion, the Group's revenue derives purely from the agency commission earned

Primary Care – our markets and services

Our business

Primary Care is usually the first point of contact for patients, often via their local GP The majority of our staff working within primary care are clinicians and include, amongst others, GPs, nurses, health visitors, dentists, opticians and pharmacists

The major elements of our customer base are Primary Care Organisations (PCOs), which include Primary Care Trusts and Local Health Boards, who plan and commission health services for their local communities The responsibility of PCOs is to ensure that adequate, accessible and relevant health services are provided to their local communities, embracing hospitals, dentists, mental health services, walk-in centres, patient transport, population screening, pharmacies and opticians They are also responsible for making certain health and social care systems work together for the benefit of patients

The services offered by our Primary Care businesses

Out-of-hours – our Primecare business provides services out of standard business hours to GPs and dental services, which are commissioned by the PCOs The GP's patients are redirected to Primecare for emergency and/or unscheduled care services Through a rigorous clinical governance process we determine the most appropriate course of action and then organise and manage the services for that person This may result in telephone advice, an appointment to attend a Primary Care Centre (PCC), or a visit by a doctor in the patient's own home

In-hours services – Primecare provides in-hours services to support GPs and their patients, with services including home visiting, telephone answering and PCC consultations to help meet daytime demand on a short- or long-term basis

Working with A & E departments – in several areas Primecare works in partnership with A & E departments to ensure that patients who visit a Primecare PCC and require urgent emergency treatment are referred quickly to the department This model also allows A & E departments to refer patients to Primecare wherever appropriate

Protected learning – providing in-hours cover to GP practices The need to address training and management requirements is key to any successful GP practice However, it is not always possible to address these issues during normal practice hours Primecare's protected learning service meets this need by providing cover to practices including all call handling, triage and consultations

Special allocation schemes – protecting GPs and their staff by caring for individuals removed from practice lists Working in partnership with PCOs and GP practices, Primecare provides a vital secure service to deliver general medical services to difficult, potentially violent patients, consistent with responsibilities placed on PCOs by the Department of Health

Managed healthcare – an alternative to hospital treatment, tailored to meeting the needs of individuals in the community, which can include the treatment of quite complex conditions in the patient's home

Secure and Police – our Secure and Police businesses provide clinical services to secure establishments and police forces They both supply doctors, nurses and other healthcare and support staff who have the expertise to provide the complete range of surgery and on-call services required by our customers Services are tailored to the needs of each establishment or police force and delivered through a carefully chosen combination of GP- and nurse-led care

Primary Care – review of the year

The need for our Primary Care business to invest in an expansion of its management team, particularly in Business Development, was identified towards the end of 2006 as necessary to more effectively address customer requirements and the expected tender opportunities The cost of this investment exceeded £1 0m in 2007 and is the main factor in the reduction in profit for the business when compared to the previous year

The pace at which the tender opportunities became available was initially disappointing but a number did emerge in the final quarter of 2007 In our traditional business area of out-of-hours GP deputising, the trend of PCTs favouring a form of "in-house" provision has continued This approach led to a small number of contract losses in Primecare Primary Care, causing a reduction in its annual revenues to £40 5m from £44 9m in 2006 Nevertheless this business managed an improvement in its profitability by ongoing improvements in efficiencies and the productivity of the clinical resource An example of a productivity improvement is the introduction of systems enabling doctors to access the online triaging system from the vehicles in which they are driven, so that any time that becomes available between home visits to patients can be used to triage other patients on the telephone

Our approach to clinical governance remains robust and we continue to exceed the standards set by the National Quality requirements for patient access This has led to the large majority of Primecare's contracts, which were due for renewal in 2007, being extended The quality of the service offered by Primecare Primary Care has led to opportunities being created with our current PCT customers, the majority of which are concentrated in the North East, the Midlands and South Wales In February 2008 Primecare, in partnership with Middlesbrough PCT and Redcar and Cleveland PCT, launched a new GP service to provide patients with access to GPs from 8am to 8pm, seven days a week Appointments can be made using a 24 hour phone line or people can attend without an appointment and wait for the next available slot

This type of service is in keeping with the trend for the more innovative PCTs to look for integrated, "around the clock solutions", rather than making any distinction between the provision of, and the providers for, in-hours and out-of-hours services Our Primary Care business, particularly the Birmingham clinical response centre, is well positioned to extend its out-of-hours expertise into a 24 hour operation with the added benefit of improving the utilisation of the excellent facility and systems, which are well proven and up-to-date following the upgrade to the latest version of the software employed

There is currently a high level of tender activity, particularly in the operation of Urgent Care Centres, designed to reduce Accident and Emergency admissions, and for the next round of GP practices Despite our lack of success in winning major new contracts in 2007 we remain optimistic that the quality of service we operate, the competitiveness of our cost base and the improving approach to the tendering process will deliver returns in the future

More success has been recorded in dentistry where two recent wins in the early months of 2008 have increased our total of dental practices to seven It is evident that the pressure on PCTs to ensure that a suitable service is available to all their constituents will lead to more opportunities, particularly in the more deprived inner-city areas

Forensic Medical produced profits in line with the previous year As with Primecare Primary Care, the key strength in this business is the quality and robustness of the operational performance, which has generated a strong reputation with police forces and prison operators, both public and private

The Police business has continued to improve service quality through the recruitment of more full-time medical examiners rather than relying heavily on sessional doctors The aborted plan to consolidate police forces into fewer, larger forces led to a hiatus in the trend to outsource their healthcare provision However, in recent months, a number of tender opportunities have become available, particularly in the South West of England and South Wales Currently Primecare supports five forces, more than any other provider, and expects to see a growing trend to outsource what is a critical service in a difficult environment

Opportunities in the prison environment invariably take time to come to fruition given the lead-time in extending existing prisons or institutions, or building new ones Long term, the ongoing pressure on the prison estate with the growth in the prisoner population will lead to growth opportunities for Forensic Medical, particularly with the transfer of the responsibility for the provision of healthcare services to PCTs The combination of our improving relationships with PCTs and the excellent service delivered by the business means we are well placed to take advantage of any additional services PCTs may wish to outsource

Corporate and social responsibilities

Employees

The degree of change undergone by the Group and its markets continued to place significant strain and responsibility on all those involved and the dedication to the delivery of the Group's services remains unstinting

The Group believes that communicating effectively with its employees in all aspects of its business, particularly the economic and financial factors affecting the Group's performance, is important to its future success In addition it is the Group's policy to encourage employees to participate in its success, through a variety of performance-related incentive arrangements, including the provision of savings-related share option schemes

Diversity

The Group recognises its responsibilities in this key area of working life and is continually taking steps to balance society and employee needs with its business requirements It has a wide and varied employee base with significant numbers of female employees, many at senior management level, as well as a significant employee base of individuals who come from ethnic minority groupings

The programme to actively recruit employees with disabilities, particularly in the Birmingham Clinical Response Centre, continued throughout the year The Group's operational working practices and policies continue to comply with the Disability Discrimination Act 1995

Training and development

Nestor Academy – Nestor Academy is the framework for our in-house management development programme The objective is to identify and develop a cross-functional pool of talented employees to support the growth of the business and to support their own personal development

Nestor Management Award (NMA) – NMA is an accredited professional qualification and is equivalent to NVQ5, first degree or MBA credits This has been extended to many of our local branch managers during 2007 and is an ongoing process

Social Care workforce – every new care worker has to undertake training in the new Common Induction Standards, which were introduced in 2006 Mandatory training includes administration of medicines, protection of vulnerable adults and manual handling This training qualifies as 'Accredited Prior Learning' towards the Social Care Workers NVQ2 Award

Clinical governance

The Group remains committed to its robust approach to the identification and management of clinical risk We continue to develop our governance processes to ensure that our services meet the evolving and demanding regulatory requirements and of course individuals' safety In Primary Care, measures of patient access remain well above the national quality standards and measures of patient satisfaction continue to be good, whilst in Social Care we have further increased the regularity and scope of our branch audits

Health and safety

The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters It recognises its responsibility for the setting and monitoring of appropriate policies, guidelines and practices in the formal Schedule of Matters Reserved for the Board's consideration

The Group's head of Human Resources is directly accountable to the Chief Executive for overseeing safety matters and worked closely with the Group's business units to roll out revised policies and reporting arrangements Day to day advice is provided by the Group Health and Safety Manager and by an external consultancy An ongoing training programme supports the effective implementation of this process, which is based on a comprehensive series of risk assessments and reporting arrangements During the year all health and safety matters remained integrated into the Nestor Quality Management System

The FTSE4Good index

As a reflection of the health and social care services that we deliver the Company has been listed on the FTSE4Good index since 2004

Skills for Life

The Department for Education and Skills (DfES) invited the Group to participate and promote the 'Skills for Life' programme as one of the first organisations to be a partner Within many workforce population groups there is a recognised lack of basic skills in literacy and numeracy These gaps are being closed through projects enabled by budget investment from the European Social Fund

Environmental policy

As a service-based organisation, with no manufacturing, limited transportation facilities and no freehold properties, the Group's exposure to environmental risk is limited, as is its ability to control the environmental impact of its activities During the year, the Group continued to refine the formal environmental policy adopted by the Board in 2000, with a particular focus on matters relating to the clinical services provided by the Group The policy document, which is directed at minimising the potential impact of the Group's operations on the environment, provides that the Board retains ultimate responsibility for setting and monitoring its policy on environmental matters

Financial review

Rights issue

On 7th March 2007, the Group completed a 2 for 7 rights issue raising £30 5m after expenses The primary purpose of the rights issue was to fund a series of small acquisitions and seven such acquisitions were completed during the year In addition the proceeds were also used to invest in additional management in both Social Care and Primary Care and to restructure the workforce acquired following the award of the contract with Hertfordshire County Council

Discontinued operations

The results of Healthcare Staffing are reported as "discontinued operations" in the comparative figures reported for 2006, with a loss of £20 5m made up as follows

Impairment of goodwill	£14 5m
Operating loss	£3 3m
Tax credit	£(0 5m)
Costs relating to the demerger	£3 2m

The commentary below for both 2007 and 2006 concentrates on the Group's ongoing businesses, now focused exclusively on Social Care and Primary Care

Continuing operations – revenue

Revenue for Social Care and Primary Care increased by 4 0% to £179 6m with Social Care recording growth of £12 8m, (11 5%) to £124 2m, and Primary Care a reduction of £5 8m (9 5%) to £55 4m

The increase in Social Care includes the revenues of acquisitions made at various times of the year, which total £8 0m The large Hertfordshire County Council contract, won in November 2006, commenced in February 2007 with revenues in the 11 months of £6 9m

The reduction in revenues in Primary Care is attributable to the loss of a small number of out-of-hours deputising contracts with PCTs, who for the most part have decided to internalise a service that had previously been outsourced to our Primecare business

Continuing operations – operating profit and margins

Operating profit, before interest and tax, totalled £13 1m compared to £18 6m in 2006, a reduction of £5 5m, or 29 3%

The results for 2007 have borne the £0 7m cost of the arrangement fee for the change in banking covenant announced in December 2007

The 2006 operating profit result of Social Care included £2 0m generated from the sale of the Group's shareholding in CM2000, in addition CM2000 contributed a further profit of £0 3m in the months up to the date of its disposal

The continuing businesses in Social Care had a mixed performance with the main domiciliary care business, Goldsborough / Medico, not achieving profit expectations through a combination of Local Authority budget constraints and a lack of care worker resource restricting volumes delivered under a number of key contracts Conversely Carewatch, our franchise business operating in the same marketplace as Goldsborough / Medico, showed only a marginal reduction in volume and an increased profit contribution to the Group Nestor's two private domiciliary care providers, Country Cousins and Patricia White's, both enjoyed successful years with significant revenue and profit growth

Primary Care's businesses each produced operating profit growth, despite a reduction in revenue in Primecare Primary Care where a small number of contracts were lost as PCTs decided to take on the provision of out-of-hours services themselves The overall operating profit reported for the Primary Care segment, however, shows a reduction on 2006 due to the significant investment made in enhancing the divisional management team, particularly in Business Development, to better address the changing market requirements and the expected increase in tender activity

Profit before tax

Profit before tax amounted to £8 9m (2006 £13 8m), the reduction being largely due to the issues discussed above

Taxation

The tax charge for the year was £3 1m (2006 £4 2m), equivalent to 34 6% of taxable profit (2006 30 6%) This was higher than the underlying rate of 30 0%, and that reported for 2006, due to an increased deferred tax charge associated with the reversal of credits previously taken relating to potential future vesting of share awards, as well as a reduction in the

carrying value of our deferred tax asset with the change in the future tax rate to 28 0%

Earnings per share

The basic earnings per share were 5 4p (2006 10 3p), this year's number being based on the increased weighted average number of shares in issue following the rights issue

Cash flow and borrowings

Closing net borrowings for the Group amounted to £58 0m (2006 £76 7m), a net inflow of £18 7m, which included the net proceeds from the rights issue of £30 5m The cost of acquisitions, including assumed liabilities, totalled £10 3m, with a further £3 2m potentially payable in 2008 under various deferred consideration arrangements

Cash flow from continuing operations totalled £8 1m (2006 £20 2m), with the reduction due to the lower level of profitability, the assumption and payment of liabilities with acquired businesses and a negative working capital impact The cash flow also notes a reduction in creditors and provisions, including additional pension scheme contributions of £2 1m in the year, and the payment of £1 4m in settlement of a longstanding tax dispute in the US

At the year end debtor days outstanding were 43 days compared to 37 days at the end of 2006 as, in Social Care, a number of contractual and service-related issues delayed payments Most of these issues have been resolved since the year end, which has enabled debtor days to be reduced to 39 days at the end of February 2008

Net capital expenditure was £1 5m (2006 £1 1m) with the only significant project being the completion of the upgrade of IT systems in the Primary Care business Capital expenditure is expected to remain below the level of depreciation for the foreseeable future

Dividends, interest and corporation tax payments amounted to a total of £9 9m (2006 £11 6m)

Equity shareholders' funds

Equity shareholders' funds increased from £11 9m reported in 2006 to £47 2m, largely attributable to the rights issue completed in March 2007, which generated a net increase of £30 5m The balance of the increase in equity shareholders' funds is represented by the profit for the year and other share issues, plus actuarial gains arising in the defined benefit pension schemes less dividends paid to shareholders

Acquisitions and disposals

A total of seven acquisitions were completed during the year, all in the Social Care business segment The total consideration payable was £13 0m, of which £3 2m was deferred as at 31st December 2007 In the previous year the Group disposed of its 51% shareholding in Care Monitoring 2000 Limited, which generated net cash proceeds of £0 8m

Pensions

In accordance with IAS19 Employment Benefits, the Group is required to compare the market value of its two defined benefit pension funds' assets at the year end with the actuarial liabilities of those funds At 31st December 2007, the pension funds' assets amounted to a total of £34 7m (2006 £33 0m) compared with total liabilities of £41 1m (2006 £45 0m), a net aggregate deficit of £6 4m (2006 £12 0m)

Treasury management and financial instruments

Financial instruments include all assets and liabilities of a financial nature such as cash, loans, finance leases, overdrafts and long-term liabilities All such instruments play an important part in the operations of the Group to enable it to operate smoothly and efficiently and to pay its obligations as they fall due They also enable the Group to fulfill its investment strategy including making appropriate acquisitions The Group's objective is to use financial instruments to minimise the cost of capital at an acceptably low financial risk and to maximise flexibility to take advantage of investment and acquisition opportunities as they arise

The Group is primarily a UK business and does not have significant exposure to foreign exchange risks Nevertheless the Group's strategy is to hedge its foreign exchange exposure where it arises with foreign currency loans or forward exchange contracts as appropriate

The main risks arising from the Group's financial instruments are interest rate and liquidity risks The Board considers each of these risks on a regular basis and the Group's stance towards each of these risks has remained unchanged

The Group started the year with £70 0m of committed borrowing facilities, plus uncommitted overdraft facilities of £10 0m One of the financial covenants entered into as part of the facilities agreement called for the ratio of net debt to EBITDA to be no higher than 3 00 1, measured quarterly In November 2007 the directors concluded that it was unlikely that the actual ratio would be within this limit at the next measurement point, being 31st December 2007, and accordingly entered into discussions with the Company's bankers to vary that covenant Following these discussions, the debt to EBITDA ratio limit has been raised to 3 99 1 as at 31st December 2007 and at the succeeding quarters through to September 2008, before declining to 3 25 1 and then 3 00 1 by March 2009 Also as at 31st December 2007, the committed borrowing facility has been reduced by £10 0m, to £60 0m, whilst the overdraft facilities of £10 0m remain in place and are now committed until April 2009 The overall facilities agreement remains in place until December 2009

At the end of the year, the Group had borrowings less cash of £58 0m (2006 £76 7m) and undrawn committed borrowing facilities of £9 2m It is, and has been throughout the year, the Group's policy that no trading in financial instruments will be undertaken

Under the banking facilities, the Group has entered into hedging arrangements which have the effect of fixing £60 0m of its borrowing within a range of interest rates between 4 50% and 7 00% until September 2010

Controls

Financial and operational controls remain robust across the Group with considerable attention paid to the control environment and balance sheet management on a monthly basis

Ethical matters

The Board has a formal Code of Business Conduct, covering all the businesses in the Group, which has consolidated all of the various codes previously applicable to them The Code provides comprehensive guidelines to all employees as to the standard of business ethics expected from them as representatives of the Group It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services offered by Group companies and the needs of their clients

The Group operates two comprehensive whistleblowing policies, in respect of clinical issues and general operational and financial matters

At the Group's Business Resource Centre in Hatfield, most gifts received by members of staff from suppliers and potential suppliers are auctioned amongst all staff (where practicable) and the proceeds of such auctions are donated to the Group's Charity of the Year

All senior managers are required to declare, on an annual basis, any hospitality received during the year in their capacity as employees of the Group and to disclose any interests they may have in connected or competing organisations These declarations are monitored by the Group Company Secretary and reported to the Board at the end of each year

All Board members are required, once a year, to submit their annual expense claims to the scrutiny of the entire Board

Martyn Ellis
Finance Director

10th April 2008

Board of directors

John Rennocks Chairman

(62), joined the Group and was appointed to the Board as Chairman in October 2003 A chartered accountant, he is also non-executive chairman of Diploma PLC and holds a number of non-executive appointments in a broad range of companies including Inmarsat plc, Foreign & Colonial Investment Trust plc and Babcock International Group PLC

Previously, he was Executive Director, Finance of Corus Group plc (formerly British Steel plc) between 1996 and 2001 From 1989 to 1996 he was Finance Director of Powergen plc and prior to that Finance Director and Company Secretary of Smith & Nephew plc

He is Chairman of the Board's Nomination Committee and a member of its Audit and Remuneration Committees

Martyn Ellis Finance Director

(51), joined the Group and was appointed to the Board in May 2003 A cost and management accountant, he previously held positions as Finance Director of TeleCity plc, Whitecroft plc, Mann Egerton and Campbell Foods (UK)

Roger Dye Non-executive director

(56), was appointed to the Board as a non-executive director in January 2004 A chartered accountant, he was Finance Director of the Davis Service Group Plc from August 2000 and became its Chief Executive in May 2005 A UK public company director since 1987, he has been Group Finance Director of Transport Development Group plc, Cray Electronics plc and Domino Printing Sciences plc

He is Chairman of the Board's Audit Committee and serves on its Nomination and Remuneration Committees

Sir Andrew Foster Non-executive director

(63), was appointed to the Board in January 2004 He has had a long and distinguished career in public service, having served as Chief Executive of the Audit Commission for England and Wales between 1992 and 2003 Other previous appointments include Deputy Chief Executive of the NHS and Director of Social Services for North Yorkshire County Council He is now Deputy Chairman of the Royal Bank of Canada Europe Ltd , Chairman of the Commonwealth Games Committee for England, a non-executive director of the Sports Council and has a range of positions in the public and private sectors

He is the senior non-executive director and Chairman of the Board's Remuneration Committee He is also a member of its Nomination and Audit Committees

Directors' report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 2007

Principal activities and business review

Nestor Healthcare Group plc is the holding company of a group of companies in the social care and primary care sectors Its principal activities are organised into two business units These comprise

- Social Care – the provision of home and social care personnel and services through a network of company owned and franchise branches across the UK, and
- Primary Care – the provision of GP and other out-of-hours services to the NHS and the provision of healthcare and related services to Police Authorities and secure institutions

Summary results for the year were as follows

	2007	2006
Continuing operations		
Revenue	**£179 6m**	£172 6m
Operating profit	**£13 1m**	£18 6m
Profit before tax	**£8 9m**	£13 8m
Basic earnings per share	**5 4p**	10 3p
Loss from discontinued operations	**–**	£(20 5m)

Results from continuing operations were as follows

	2007 Revenue	2007 Operating profit	2006 Revenue	2006 Operating profit
Social Care	**£124 2m**	**£10 0m**	£111 4m	£14 2m
Primary Care	**£55 4m**	**£3 1m**	£61 2m	£4 4m
Total	**£179 6m**	**£13 1m**	£172 6m	£18 6m

Total equity at 31st December 2007 was £47,248,000 (2006 £11,915,000) The increase takes account of the rights issue of March 2007 when 25,037,620 new shares were issued with total extra capital of £30,486,000 (net of associated expenses) being raised

The Chairman's statement, operating review and financial review on pages 2 to 18 provide a further business review and commentary on the Group's activities, trading results and future developments

Results and dividends

The profit attributable to shareholders was £5,829,000 (2006 loss of £10,905,000) The profit after tax from continuing operations was £5,829,000 (2006 £9,569,000) An interim dividend of 1 00 pence was paid in October 2007 following payment of the 2 00 pence final dividend for 2006 in June 2007 The total dividend paid, representing these combined dividends of 3 00 pence on the increased number of shares in issue following the rights issue, was £3,382,000 (2006 £2,629,000)

The directors now recommend a final dividend of 1 00 pence per ordinary share, to be paid to shareholders on 25th July 2008

Directors

The directors who served during the year were Ingrid Alexander, Stephen Booty, Roger Dye, Martyn Ellis, Sir Andrew Foster and John Rennocks All the directors served throughout 2007 except Ingrid Alexander who resigned on 2nd March 2007

On 7th April 2008 the Company announced that Stephen Booty would be standing down and would be leaving the Group's employment on 30th April 2008

In accordance with the Articles of Association, John Rennocks, Roger Dye and Sir Andrew Foster will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election

John Rennocks, Roger Dye and Sir Andrew Foster each has a service agreement with the Company, further details of which are provided at page 29 in the remuneration report

Directors' interests

All directors' interests, including details of shareholdings, are set out in the remuneration report of the Board on pages 30 to 31

Substantial shareholdings

At 7th April 2008 the Company had been notified of the following interests of 3% or more in its ordinary share capital

Shareholder	Number of shares	Percentage of issued share capital
Schroder Investment Management	24,129,003	21 38
Aberforth Partners	20,694,469	18 34
UBS	8,574,290	7 59
Gartmore Investment Management	8,422,324	7 46
JO Hambro Capital Management	6,575,792	5 83
Legal & General Investment Management	5,703,337	5 05
SG Asset Management	5,417,564	4 80

Details of the authorised and issued share capital of the Company during the year ended 31st December 2007 are given in note 27 to the financial statements

Charitable and political donations

No political donations were made during the year (2006 £nil) No charitable donations were made in the year (2006 £nil)

Financial instruments

Note 24 to the financial statements contains disclosure on financial instruments

Strategy

The business strategy adopted by the directors is to continue to focus on the Social Care and Primary Care businesses, and in particular to

- Continue to win new contracts with Local Authorities, Primary Care Trusts, Police Authorities and secure institutions, and
- Explore opportunities to provide additional services to existing and new customers

Key performance indicators

When monitoring the performance of the Group and of the individual businesses within it, the directors continue to review several key performance indicators (KPIs) The more important ones used are

Applicable across the whole Group
- Revenue
- Operating profit
- Debtor days

Applicable to the Social Care business
- Volume – hours
- Commission per hour
- Gross profit
- Gross profit per hour
- Average number of care workers paid per week
- Average hours per care worker paid per week
- Ratio of care worker hours to branch staff hours

Applicable to the Primary Care business
- Doctor pay
- Nurse pay
- Other operating costs
- Cost per doctor hour
- Ratio of doctors to nurses
- Cost per doctor visit and per nurse visit
- Consultations per doctor hour

Actual KPIs at the Group level were as follows

	Year to 31st December 2007	Year to 31st December 2006
Revenue	**£179,600,000**	£172,600,000
Operating profit	**£13,100,000**	£18,600,000
Debtor days	**43**	37

Risk factors

The directors consider that the Group's business, financial condition and/or results of operations could be materially affected by a number of risks relating either to the business of the Group or more general risks, as follows

- Cuts in government spending may have a material adverse effect,
- That part of Primary Care's revenue that is derived from Primary Care Trusts is subject to risks relating to carrying out business with them,
- That part of Social Care's revenue that is derived from the social services departments of Local Authorities is subject to risks relating to carrying out business with such departments,
- The Primary Care business is dependent on its ability to recruit and retain suitably qualified doctors and other medical professionals,
- The Group could be at risk of being found deficient in recruitment standards required by regulators and the Group's customers,
- The Group operates a branch network and is dependent on exerting proper centralised management over its branches,
- Increased use of technology in people's own homes may lead to a decrease in the requirement for the Group's services,
- Any necessary increase in employer contributions to the Group's pension schemes or a liability to make good the deficits in the schemes may have an adverse impact on the Group's financial condition, and
- Competition for the Group's services may increase and may limit the ability of the Group in future to maintain market share or revenue levels The main barriers to entry in the Group's businesses are (i) rigorous quality assurance standards, regulations and inspections, and (ii) business awarded under contracts in relation to which the tendering process is costly and rigorous

Disabled employees

It is the Groups policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees

The Group applies employment policies that are fair and equitable for all employees and which ensure that entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons The Group's training and development policies make it clear that the Group will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Group are able to continue to perform their duties

Employee involvement

The Group attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance and the market in which the Group operates Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes, which are described in more detail elsewhere in this report

Internal circulars and newsletters are issued on a monthly basis and consultation between management and staff is an ongoing process Employees are consulted on issues directly affecting them wherever practicable Further details of the Group's policies and practices relating to employee involvement may be found on pages 14 and 15 of this report

Creditor payment policy

It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice, copies are available from the CBI at Centrepoint, 103 New Oxford Street, London WC1 At 31st December 2007 trade creditors represented 10 days' purchases (2006 15 days)

The directors' reports of the Group's UK operating companies give information about their creditor payment policies as required by the Companies Act The Company, as a holding company, does not itself make any relevant payments in this respect

Auditors

During the year PricewaterhouseCoopers LLP resigned as auditors to the Company, following which BDO Stoy Hayward LLP were appointed to fill the casual vacancy arising

A resolution proposing the appointment of BDO Stoy Hayward LLP, Chartered Accountants, as auditors to the Company and authorising the Audit Committee of the Board to determine their remuneration will be put to the Annual General Meeting

Directors' responsibilities to the auditors regarding the financial statements

Each person who is a director at the date of approval of this directors' report confirms that

- So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- Each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Approved by the Board on 10th April 2008 and signed on its behalf by

David Collison
Group Company Secretary

Nestor Healthcare Group plc
Registered number 1992981
Registered office Allen House, Station Road, Egham, Surrey TW20 9NT

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985 The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and Article 4 of the IAS Regulation The directors have chosen to prepare financial statements for the Company in accordance with IFRS

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS A fair presentation also requires the directors to

- Consistently select and apply appropriate accounting policies,
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Financial statements are published on the Group's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions The maintenance and integrity of the Group's website is the responsibility of the directors The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

Remuneration report

In accordance with the Listing Rules, the Board is pleased to present its remuneration report for the year ended 31st December 2007 This remuneration report has been prepared by the Remuneration Committee in accordance with the aforementioned regulations An ordinary resolution to approve the remuneration report will be proposed at the Annual General Meeting on 20th June 2008 The vote will have an advisory status only and will be in respect of the remuneration policy and overall remuneration packages generally and will not be specific to individual levels of remuneration

BDO Stoy Hayward LLP have audited the sections headed directors' emoluments, directors' pensions and directors' interests to the extent required by the regulations

Remuneration Committee

During the year, the Board delegated its powers to determine the Group's remuneration policy for senior executives, including executive directors, to the Remuneration Committee ("the Committee"), the members of which during the year were Sir Andrew Foster (Chairman), Ingrid Alexander (until her resignation on 2nd March 2007), Roger Dye, all of whom were regarded by the Board as independent non-executive directors, and John Rennocks (who was regarded by the Board as being independent within the meaning of the Code, on the date of his appointment) The Board has retained responsibility for setting the remuneration of the Company's Chairman since he currently serves as a member of the Committee

The terms of reference of the Committee may be found on the Company's website Further details relating to the Committee may be found on page 33 of this report

In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Code on Corporate Governance published in June 2006 ("the Code") and to the Directors' Remuneration Regulations 2002 It has also received advice on executive remuneration from New Bridge Street Consultants LLP ("NBSC"), which during the year was retained by the Committee as its regular advisor A copy of a statement relating to the terms on which NBSC is engaged by the Committee is available on the Company's website The Committee has also received assistance from Stephen Booty, the Group's Chief Executive and Deirdre Saliba from the Group's Human Resources function and who is Secretary to the Committee, both of whom attended meetings of the Committee as required but not in respect of matters relating directly to their own remuneration

The Company has also instructed NBSC to advise it on certain ad hoc matters during the year, for example in relation to the administration of the Company's share schemes

Remuneration policy

The Committee's overall aim is to provide a package of remuneration which

- Is sufficient but no more than is necessary to attract, retain and motivate all of the Group's most senior management, including executive directors,
- Rewards good performance with remuneration that is in line with that payable in broadly comparable businesses, and
- Rewards exceptional performance in such a way as to align the executives' interests with those of the shareholders

To that end, the Committee structures executive remuneration in two distinct parts fixed remuneration of basic salary and benefits and variable performance-related remuneration, in the form of a cash bonus and long-term incentives Remuneration is structured so that the variable pay element forms a significant portion of each director's package During the year the remuneration policy was unchanged from that applying in 2006

Basic salary and benefits

Basic salary is determined by reference to the responsibilities and performance of the individual directors during the year, taking into account experience and the rates of basic pay for similar roles in comparable companies The Committee's overall aim is to ensure that the basic salary paid to the Group's senior executives is broadly in line with the median of that paid by comparable businesses (generally companies in the FTSE 350 Index), having particular regard to their size and complexity Salaries are reviewed annually, normally in November or December of each year, with any adjustments usually taking effect from 1st January in the following year, although in 2008 the review was deferred for three months It is the Committee's practice to undertake formal market benchmarking of directors' and senior executives' salaries, with the assistance of NBSC, every two years Executive directors' basic salaries were not increased in 2007 and therefore still ranged from £203,000 to £312,000, as in 2006 The Group additionally provides a range of benefits to executive directors, the most significant of which are a car cash allowance and pension benefits (full details of which are set out below)

Cash bonus

Each year, the Committee sets stretching bonus targets for each executive director, aiming to achieve a balance between short- and medium-term objectives In 2007 and 2008, targets comprise overall Group performance criteria relating to profit before tax, which is considered to be the most appropriate financial target No bonus is payable if the relevant financial targets are not met None were either earned or paid in 2007

The maximum such annual bonus payable to executive directors is 80% of salary Bonuses are not pensionable

Long-term incentives

The Group currently operates three long-term incentive schemes, the Nestor Healthcare Group Share Option Plan 2002 ("the 2002 Plan"), the Long-term Incentive Plan (the "LTIP"), both of which were adopted following approval by shareholders in 2002, and the Performance Share Plan (the "PSP") which was adopted following approval by shareholders in 2006 In proposing the schemes, the Committee took extensive advice from NBSC, sought and obtained the prior approval of a number of the Company's largest shareholders and complied with prevailing best practice relating to such arrangements

The Committee believes that share ownership by senior executives is an effective means of rewarding superior performance, since the interests of management and shareholders are thereby aligned The Committee further believes that the provision of share schemes to the Group's managers should be structured in such a way as to encourage them to achieve the Group's long-term aims and that the Group's most senior managers, including executive directors, should be rewarded for exceptional performance with potentially significant rewards

Once options have been exercised no restrictions are placed on future retention or disposal

i The 2002 Plan

Prior to 2006 it was generally the Group's policy to grant share options regularly, on a tiered basis, to a broad range of middle and senior management, including executive directors Generally (though not in every year) options were granted annually to executive directors, to a value equivalent to one times salary, although in exceptional cases, where a key executive joined the Group, a higher limit was sometimes applied In other years, a lower limit had also been applied In 2005, 1,559,057 share options were granted under the 2002 Plan, but none in either 2006 or 2007

"Normal" options

For "normal" options granted to the Group's most senior executives, including all executive directors, a range of normalised earnings per share ("EPS") performance targets applies to grants as shown below

	Average growth required in EPS
1st third of an option	RPI + 5% pa
2nd third of an option	RPI + 6% pa
Final third of an option	RPI + 10% pa

In all cases, performance is tested over a three-year period Since January 2004, the Committee has resolved that there will be no opportunities to re-test performance for grants made after that date

EPS was chosen as the relevant benchmark for the measurement of the Group's performance since the target requires substantial improvement in underlying financial performance before options may be exercised This complements the requirement inherent in an option, which is to grow the share price The range of EPS targets are considered to be appropriately stretching, generating higher potential reward levels for higher levels of financial performance All awards granted in 2005 have lapsed as a result of the minimum performance condition measured over the required three-year period to 31st December 2007 not having been achieved

"Super" options

In addition to "normal" options, the 2002 Plan also provides for the grant of "super" options to certain of the Group's most senior managers, including executive directors These options may be granted over shares worth up to one and a half times the individual's salary and the exercise of these options is subject to the achievement of more stretching targets than those prescribed by the Committee in relation to "normal" options

Performance targets relating to "super" options involve a comparison of the Company's total shareholder return ("TSR") with companies in the FTSE Small Cap Index (excluding investment trusts) as at the date of grant, measured over a single three-year period from grant Options are exercisable as set out below

Nestor's TSR ranking in group	% of super options exercisable
Below 45th percentile	0%
45th percentile	40%
45th percentile to 25th percentile	Sliding scale from 40% to 100%
25th percentile and above	100%

In addition to the TSR condition above, no element of the option is exercisable unless the Company's EPS growth over the three-year period exceeds 5% per annum over RPI There is no opportunity to re-test performance

No options were granted in 2005, 2006 or 2007 under this scheme

ii The LTIP

Under the LTIP, the executive directors who are eligible to participate (namely Stephen Booty and Martyn Ellis) were required to invest one half of their post-tax cash bonus in buying shares in the Company The investment is matched by the grant of matching awards

Matching awards will normally only vest on the third anniversary of their grant if the participant is still in the Group's employment, has retained the shares purchased with the bonus and if specified performance targets are met The current performance target involves a comparison of the Company's TSR with companies in the FTSE Small Cap Index (excluding investment trusts) as at the date of grant, measured over a single three-year period from grant Matching awards vest as set out below

	Matching Ratio	
Nestor's TSR ranking in group	Chief Executive	Other eligible executive directors
Below 45th percentile	0	0
45th percentile	0 5 1	0 3 1
45th percentile to 10th percentile	Sliding scale from 0 5 1 to 4 1	Sliding scale from 0 3 1 to 2 5 1
10th percentile and above	4 1	2 5 1

In addition to the TSR condition above, none of the awards will vest if the Company's EPS growth does not exceed the growth in RPI by an average of at least 5% per annum over the three year period There is no opportunity to re-test performance

The Committee considered TSR to be a suitable performance measure for both the "super" options and the LTIP as it clearly aligns the interests of shareholders and executives It also considers that the FTSE Small Cap Index is an appropriate benchmark as there are no other companies with a directly comparable business profile to the Company listed on the UK Stock Exchange TSR performance is independently calculated for the Committee A chart showing the Company's TSR compared to the FTSE Small Cap Index over the last five financial years is shown below

Participation in the matching awards to date has been as follows

	Notionally awarded in 2004	Share price at date of notional award (p)	Lapsed in 2004	Notionally awarded in 2005	Share price at date of notional award (p)	Lapsed in 2005, 2006 and 2007	Potential interest in shares at 31 12 07	Amount charged against profit in 2007 £000
Stephen Booty	33,108	185 0	–	107,559	148 75	(140,667)	–	–
Martyn Ellis	22,297	185 0	–	51,093	148 75	(73,390)	–	–
Justin Jewitt	54,054	185 0	(54,054)	–	–	–	–	–
Stephen Page	15,589	185 0	(15,589)	–	–	–	–	–
Total directors	125,048		(69,643)	158,652		(214,057)	–	–

Earliest vesting dates for awards made in 2004 and 2005 were 7th April 2007 and 11th May 2008, respectively No awards were made in 2006 or 2007 and the Committee does not currently expect to issue awards under this plan in 2008 or future years

The required EPS growth targets were not met in either 2006 or 2007 so all of the matching awards have now lapsed

iii The Performance Share Plan

The PSP was approved by shareholders at the Annual General Meeting on 27th April 2006 It was then adopted by the Board and awards made later on the same day Awards were made entitling directors and certain other senior managers to acquire shares in the Company, with the awards normally vesting on the third anniversary of the grant (27th April 2009) subject to continued employment and the satisfaction of a TSR growth performance condition No consideration was payable for the grant of the awards and no consideration is payable on vesting The share price at the time of the award was 128 00 pence

Following the rights issue of March 2007, the number of shares that were the object of the potential award made in April 2006 has been increased by a factor of 6 4274%, being the calculated bonus element of the rights issue

A further award was made to directors and certain other senior managers on 26th March 2007, these awards also to vest normally on the third anniversary of the grant (26th March 2010) subject to the same provisions As before, no consideration was payable for the grant of the awards and no consideration is payable on vesting The share price at the time of this award was 159 85 pence

In normal circumstances annual awards will be limited to a potential value equivalent to a maximum of 100% of basic annual salary

The performance condition required to be met is that the Company's TSR over the three-year period from the date of the award must be at least at the median of a ranking of the TSR of each of the members of a defined comparator group over the same period, in which case the award will vest as follows

Nestor's TSR ranking in group	% of award that vests
Upper quartile or above	100%
Between upper quartile and median	Sliding scale from 35% to 100%
Median	35%
Below median	0%

The comparator group comprises the constituent companies of the FTSE Small Cap Index, excluding investment trusts

Awards made on 26th March 2007 to directors were as follows

	Maximum number of shares awarded in 2007	Amount charged against profit in 2007 £000
Stephen Booty	195,182	53
Martyn Ellis	126,994	35
Total	322,176	88

SAYE Scheme

The Group also operates a savings related share option scheme ("SAYE"), which provides a long-term savings opportunity for all of the Group's employees, as well as encouraging them to participate in the success of the Group Participation is open to all permanent employees who are able to make regular monthly savings Options are exercisable in normal circumstances after three or five years at a price which is fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately preceding the date on which invitations are made by the Committee In 2007 options over 280,100 shares were issued under this scheme, the exercise price being 140 04 pence

Policy on the pensions of executive directors

Until it was closed to new entrants in April 2003, executive directors were able to join the Nestor Healthcare Group Retirement Benefits Scheme ("the Scheme"), a funded, Inland Revenue approved, final salary occupational pension scheme Pensions in the Scheme are based on final salary (excluding bonuses) and length of pensionable service The Company has also established an unapproved scheme to provide additional death-in-service benefits to these directors in line with their basic salaries

Under the Scheme, the normal retirement age of executive directors is 60 and the basic rate of accrual is 1/50th

Since the Scheme was closed to new entrants in April 2003, newly appointed employees, including executive directors, are eligible to join the Nestor Healthcare Group Personal Pension Plan ("GPP"), which is a defined contribution arrangement In respect of executive directors, the Company makes contributions to the GPP at a rate up to a maximum of 20% of the director's basic salary

Executive directors' contracts of service

Policy

It is the Committee's policy only to offer contracts terminable on no more than 12 months' notice to executive directors All currently serving executive directors have contracts of employment terminable in all circumstances on a maximum of 12 months' notice When offering contracts of employment to newly appointed executive directors, the Committee has regard to the broad principles outlined in the ABI and NAPF's joint statement on Best Practice on Executive Contracts and Severance, including the director's duty to mitigate his losses in the event of early termination of his contract

Specific contractual details

Current executive directors

			Termination provisions		
	Date of contract	Notice period	Pay in lieu of notice" clause	Share options	Annual bonus
Stephen Booty	1st February 2003	12 months' notice from Company	Note 1	Note 2	Note 3
Martyn Ellis	23rd May 2003	12 months' notice from Company	Note 1	Note 2	Note 3

Notes

1 The Company may terminate the director's employment without notice, provided it pays to him an amount equating to his salary, benefits and employer's pension contributions or credits him with an additional period of pensionable service (as applicable) for the unexpired period of notice due under the contract Martyn Ellis's contract permits the Company to pay any monies due on a monthly basis and at its discretion, to cease or reduce payments if he accepts suitable alternative employment

2 At the Board's discretion, the director may be entitled to retain any vested share options held under the Group's Share Option Schemes for a period of up to 12 months from termination He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date

3 Depending on the time of year at which his employment ceases, the director may be entitled to any bonus earned by him (but not yet paid) for the previous year under the Group's bonus scheme

On 7th April 2008 the Company announced that Stephen Booty would be standing down as a director and as Chief Executive on 30th April 2008 It is expected that any pay in lieu of notice or other compensation payable to him will be in line with the provisions of his contract of employment

Chairman and non-executive directors

The Board sets the fee levels for the Chairman and non-executive directors Non-executive directors do not hold contracts of employment but are offered letters of appointment for a fixed period of three years, renewable annually thereafter by agreement Non-executive directors do not participate in any of the Group's annual or long-term incentive arrangements, nor is their remuneration pensionable

Current non-executive directors

	Date of letter of appointment	Appointment term	Compensation in the event of early termination of office
John Rennocks (Chairman)	1st October 2003	1 year from 1st October 2007	3 months' fees
Roger Dye	9th January 2004	1 year from 1st January 2008	None
Sir Andrew Foster	16th January 2004	1 year from 1st January 2008	None

Ingrid Alexander resigned as a director on 2nd March 2007 No compensation for loss of office was payable

Directors' emoluments

	Basic salary and fees 2007 £000	Performance related bonuses 2007 £000	Taxable benefits 2007 £000	Pay in lieu of notice (including pensions) 2007 £000	Total emoluments 2007 £000	Total emoluments 2006 £000
Ingrid Alexander	5	–	–	–	**5**	29
Stephen Booty	312	–	120	–	**432**	634
Roger Dye	35	–	–	–	**35**	35
Martyn Ellis	203	–	13	–	**216**	321
Sir Andrew Foster	35	–	–	–	**35**	35
John Rennocks	82	–	–	–	**82**	90
William Holmes	–	–	–	–	**–**	342
Total 2007	672	–	133	–	**805**	–
Total 2006	869	300	142	175	**–**	1,486

Notes

1 Benefits receivable consist primarily of company car allowance, car fuel and healthcare insurance

2 Included in taxable benefits relating to Stephen Booty is a payment of £104,000 (2006 £104,000) representing compensation in lieu of pension contribution Included in taxable benefits relating to Martyn Ellis is a payment of £nil (2006 £5,000) representing compensation in lieu of pension contribution

3 Ingrid Alexander resigned as a director on 2nd March 2007

4 Pay in lieu of notice of £175,000 payable in 2006 was paid to William Holmes who resigned as a director on 31st December 2006

5 The figures above represent emoluments earned as directors during the relevant financial year All were paid in the year that they were earned

Directors' pensions

Defined benefit scheme

	Accrued pension per annum at 31st December 2007 £000	Increase in accrued pension during 2007 £000	Increase in accrued pension per annum during 2007 excluding price inflation £000	**Transfer value of accrued pension at 31st December 2007 £000**	Transfer value of accrued pension at 31st December 2006 £000	Transfer value of the increase excluding price inflation less director's contributions £000	Increase in transfer value during 2007 less director's contributions £000
Stephen Booty	**36**	6	5	**511**	415	54	80

The transfer values have been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11
The above figures exclude any benefits derived from directors' additional voluntary contributions

Defined contribution schemes

Employer contributions of £40,600 (2006 £35,280) were paid during the year to the GPP in respect of Martyn Ellis

Directors' interests

The beneficial and family interests of directors in the share capital of the Company were

	Ordinary shares		Share options: Company plan 1996		Share options: Employee scheme 1996		Share options: Share option plan 2002		Share options: SAYE scheme	
	31 12 07	31 12 06	**31 12 07**	31 12 06	**31 12 07**	31 12 06	**31 12 07**	31 12 06	**31 12 07**	31 12 06
Stephen Booty	**94,731**[3]	73,680[3]	**5,868**	5,514	**25,433**	23,897	**341,993**[5]	321,340[5]	**–**	6,014
Roger Dye	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Martyn Ellis	**22,268**[4]	17,320[4]	**–**	–	**–**	–	**205,436**	193,030	**–**	–
Sir Andrew Foster	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
John Rennocks	**6,294**	4,896	**–**	–	**–**	–	**–**	–	**–**	–

Notes

1 None of the directors has any non-beneficial interest in the Company's share capital
2 No director was materially interested in any contract of significance (apart from contracts of service or for services) with any Group company during or at the end of the financial year
3 Included in Stephen Booty's ordinary shareholding is a total of 20,398 shares held under the LTIP (2006 23,680)
4 Included in Martyn Ellis's ordinary shareholding is a total of 15,503 shares held under the LTIP (2006 17,320)
5 120,200 options granted to Stephen Booty under the 2002 Plan in 2002 are "Super Options"
6 All directors who owned ordinary shares in the Company and were eligible to participate in the rights issue announced on 24th January 2007 subscribed in full for their rights The increases in shareholdings between 31st December 2006 and 31st December 2007 disclosed in the above table reflect those subscriptions
7 The number of options in issue under all schemes that had been issued in 2006 and earlier years have been increased by a factor of 6 4274% being an amount equivalent to the bonus element of the March 2007 rights issue

Details of share options held by the directors, including William Holmes who resigned on 31st December 2006, during the year were

	Scheme (see below)	At 31st December 2006	Adjustment of 6 4274%	Exercised	Lapsed	**At 31st December 2007**	Exercise price	Date from which exercisable	Expiry date
Stephen Booty	1	23,897	1,536	–	–	**25,433**	511 15p	Apr '05	Apr '12
	2	5,514	354	–	–	**5,868**	511 15p	Apr '05	Apr '12
	3	6,014	–	–	(6,014)	–	147 63p	Jun '06	Nov '06
	4	12,000	771	–	–	**12,771**	282 82p	Nov '06	Nov '13
	4	196,399	12,623	–	–	**209,022**	143 53p	Jan '08	Jan '15
	5	112,941	7,259	–	–	**120,200**	199 67p	Oct '05	Oct '12
Martyn Ellis	4	64,716	4,159	–	–	**68,875**	256 98p	Jun '06	Jun '13
	4	128,314	8,247	–	–	**136,561**	143 53p	Jan '08	Jan '15
William Holmes	1	43,137	–	–	(43,137)	–	479 20p	Oct '04	Oct '11
	2	5,882	–	–	(5,882)	–	479 20p	Oct '04	Oct '11
	3	13,638	–	–	(13,638)	–	113 84p	Jun '10	Nov '10
	4	58,823	–	–	(58,823)	–	199 67p	Oct '05	Oct '12
	4	12,000	–	–	(12,000)	–	282 82p	Nov '06	Nov '13
	4	104,746	–	(66,897)	(37,849)	–	143 53p	Jan '07	Jan '15

Schemes

1 Employee Share Option Scheme 1996 Options, performance target – EPS growth of RPI plus 5% per annum
2 Company Share Option Plan 1996 Options, performance target – EPS growth of RPI plus 5% per annum
3 SAYE Scheme Options
4 The 2002 Plan – "Normal Option"
5 The 2002 Plan – "Super Option"

Notes

1 There is no cost to the employee for the receipt of options under the Employee Share Option Scheme 1996, Company Share Option Plan 1996 or the 2002 Plan Deductions from earnings are made in respect of SAYE options
2 Employee Share Option Scheme 1996, Company Share Option Plan 1996 and the 2002 Plan option prices are fixed at the mid-market price on the business day preceding the date of grant
3 SAYE Scheme options are fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately before the date of invitation
4 The mid-market price at 31st December 2007 was 48 00 pence and the range during the year was 28 75 pence to 194 00 pence
5 66,897 options granted under the 2002 Plan – "Normal Option" in January 2005 were exercised by William Holmes on 15th June 2007 at a price of 143 53 pence following his resignation from the Company

External appointments

All executive directors are required to seek the consent of the Board before accepting external appointments as non-executive directors of companies outside the Group None of the executive directors is currently a director of a company outside the Group or received a fee in respect of such a position during the year to 31st December 2007

On behalf of the Board

Sir Andrew Foster
Chairman, Remuneration Committee

10th April 2008

Corporate governance

Introduction

The Company and Group complied throughout the year with the provisions set out in the Combined Code published by the UK Financial Reporting Council in June 2006 ("the Code") except where indicated in this statement

The manner in which the Company applies the principles of good governance contained in the Code is described in the appropriate parts of this Annual Report Thus the application by the Company of the Code's principles to remuneration matters at pages 25 to 31 should be read in conjunction with the statement below

The Board

The Board of directors leads and controls the Company by holding at least eight meetings a year at which its current and forecast performance are examined Regular reports on monthly performance and other matters of importance to the Company and Group ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement In addition, the Board holds regular meetings to discuss and devise the Group's medium- and long-term strategic focus and management development strategy Regular informal presentations are given and meetings held in order to advise directors of issues of importance affecting the Group

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to re-election by the Company's shareholders at the Annual General Meeting immediately following appointment and at least every three years thereafter

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority in certain matters The Schedule makes it clear that all directors have access to the advice and services of the Company Secretary and establishes a procedure for all directors to take independent advice, if necessary, at the Company's expense Matters reserved to the Board include the recommendation or approval of dividends, the approval of final and interim financial statements, major financial commitments, the acquisition of companies or businesses, appointments to the Board and its committees, the Group's future strategy and the Group's internal controls This Schedule is kept under regular review

During the year, the Board was led by John Rennocks, the non-executive Chairman He also served as a member of the Board's Nomination, Audit and Remuneration Committees

The Chairman's responsibilities are clearly defined in a written specification agreed by the Board prior to his appointment in 2003 They include the smooth running of the Board, effective communication between executive and non-executive directors and the general progress and long-term development of the Group His other significant commitments were disclosed to the Board prior to his appointment

The day-to-day running of the business of the Company and Group was delegated throughout the year to an executive team of two executive directors being Stephen Booty, Chief Executive and Martyn Ellis, Finance Director

During the year, independent non-executive directors with extensive business, finance, health and social care backgrounds provided the Board with a breadth of experience and with independent judgement Roger Dye and Sir Andrew Foster served throughout the year, with Sir Andrew Foster being nominated as the senior independent non-executive director Ingrid Alexander, CBE, also served as a non-executive director until her resignation which took effect from 2nd March 2007

Having reviewed the Code, the Board considers that its present membership, comprising two independent non-executive directors, two executive directors and the Chairman, is appropriate, with a balance of skills and experience appropriate for the requirements of the business This recognises that in John Rennocks, the Board has a Chairman who remains de facto "independent" (having met the criteria of independence referred to in Provision A 3 1 of the Code on his appointment in October 2003) It also considers that the Board's policies and procedures are of sufficient strength to ensure that the performance and proceedings of the Company and Group are effectively challenged and controlled

The Board actively encourages all directors to deepen their knowledge of their roles and responsibilities and to gain a clear understanding of the Group and the environment in which it operates Newly appointed Board members undergo an induction programme and have received the opportunity for formal training In 2007 the non-executive directors received the opportunity to meet with various members of the Group's management teams on several occasions Further training for directors is available and offered as appropriate

The Board has adopted a formal process for reviewing its own effectiveness and that of its individual members In addition, regular meetings of the non-executive directors are held without the executive directors, and at least once a year, without the Chairman present, in order to evaluate his performance This process and policy have been in place throughout 2007 A formal review by the Board of its own effectiveness took place in 2007, combined with assessments of individual directors and assessments by the non-executive directors of the Chairman's performance

All non-executive directors meet the criteria of independence as laid down in Provision A 3 1 of the Code with the exception of John Rennocks who met all of the criteria of independence on appointment and whom the Board currently regards de facto independent For this reason, he remains a member of each of the Board's Nomination, Audit and Remuneration Committees However, the Board intends to keep this under review

Committees

The Board operates three committees, consisting wholly of non-executive directors to which it has delegated certain specific responsibilities and each of which has formally adopted terms of reference These comprise the Nomination, Audit and Remuneration Committees

Nomination Committee

The Nomination Committee, which makes recommendations to the Board on the appointment of directors, is chaired by John Rennocks The Committee draws on the advice of such professional advisors as it considers necessary

In 2007 the Committee comprised John Rennocks, Ingrid Alexander (until her resignation in March), Roger Dye and Sir Andrew Foster

The terms of reference of the Nomination Committee are regularly reviewed by the Board

No additions to the composition of the Board were made or contemplated during the year, so no meetings of the Nomination Committee were in practice required

Audit Committee

The Audit Committee is chaired by Roger Dye, a chartered accountant and Chief Executive of the Davis Service Group Plc It comprises the non-executive directors together with the Chairman John Rennocks

In 2007 the other members of the Committee were Ingrid Alexander (until her resignation in March) and Sir Andrew Foster Its terms of reference are regularly reviewed by the Board

The Committee met three times during the year to review the preliminary full year results announcement and the Annual Report for the year ended 31st December 2006 and interim results for the six months ended 30th June 2007 before they were presented to the Board, to receive reports from the external auditors and to make recommendations to the Board on accounting policies Its primary duties include the monitoring, on behalf of the Board, of compliance with, and the effectiveness of, the Group's accounting and internal control systems The Committee's duties also include monitoring the scope and results of the Group's annual audit and the independence, general performance and objectivity of its auditors Having previously agreed and implemented a procedure for reviewing and assessing its own effectiveness, the Committee carried out such a review in the year From time to time the Chairman of the Committee also meets informally with the auditors

In 2007 the Audit Committee, in accordance with its duties, made a recommendation to the Board on the appointment of external auditors That recommendation, which was accepted by the Board, was to appoint BDO Stoy Hayward LLP instead of the outgoing auditors PricewaterhouseCoopers LLP The Audit Committee has in addition approved their remuneration and terms of engagement A resolution is to be put to the Annual General Meeting to seek shareholder approval for the appointment of BDO Stoy Hayward LLP until the next general meeting and to authorise the Audit Committee to determine their remuneration The Audit Committee is pleased with the contribution made to date by the new auditors, and looks forward to a strong working relationship with them in the years to come

Remuneration Committee

The Remuneration Committee's responsibilities include determining the Group's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chief Executive and having received professional advice from remuneration consultants and the Group's Human Resources senior management The Committee is also responsible for approving the grant and exercise of executive long-term incentive arrangements In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality

The remuneration of non-executive directors, including the Chairman, is a matter for the Company's Board and the Committee's terms of reference make it clear that the framework for the remuneration of the Group's senior executives (including executive directors) must be agreed by the Board as a whole

The terms of reference of the Committee are regularly reviewed by the Board

The Committee met three times in the year

Sir Andrew Foster acted as Chairman of the Remuneration Committee throughout the year In 2007 the other members of the Committee were Ingrid Alexander (until her resignation in March), Roger Dye and John Rennocks, who is currently considered by the Board to be "de facto" independent and whose membership is therefore appropriate, although this is subject to ongoing review The remuneration report prepared by the Remuneration Committee is set out in the Annual Report and discloses the remuneration policy of the Company and the remuneration of the directors

Short biographies of each of the directors, including their membership of the Board's committees outlined above, may be found on page 19

Attendance at meetings

Roger Dye, Ingrid Alexander, Stephen Booty and Martyn Ellis attended all those Board and Committee meetings which they were entitled to attend John Rennocks attended all of the Board meetings and Remuneration Committee meetings and two out of the three Audit Committee meetings Sir Andrew Foster attended all of the Remuneration Committee meetings, seven out of the eight Board meetings and two out of the three Audit Committee meetings

The Board, on behalf of the Company and Group, recognises the need to maintain an active dialogue with its shareholders The Chief Executive and Finance Director meet regularly with institutional investors and analysts to discuss the Group's performance and all shareholders have access to the senior non-executive director, who is available to discuss any questions which investors may have

in relation to the running of the Group They also have access to the Chairman if they so require, in 2007 several such meetings took place The Board encourages shareholders to attend the Annual General Meeting and is always willing to answer questions, either in the meeting itself or, more informally, afterwards In addition, shareholders may contact the Company direct, either through its website or by telephoning its offices on 01784 221600

The Board also recognises the need to ensure that all directors are fully aware of the views of major shareholders about the Group Copies of all analysts' research relating to the Group are circulated to all directors upon publication, monthly analyses of the shareholder register are made available to the Board and written feedback from shareholders and analysts, prepared by the Company's brokers and public relations advisors, is provided to all directors after every significant corporate event and at least twice a year

Going concern

The directors confirm that, after reviewing the financial position and cash flows of the Group and of the Company, they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the accounts

Internal controls

As required by the UK Listing Authority, the Company and the Group have complied throughout the year with the provisions of the Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

The directors first adopted a revised comprehensive process for managing, evaluating and reporting on significant risks faced by the Group in 1999 This process has been constantly reviewed and revised in subsequent years, including 2007 The revised (and further refined and extended) process has been in place for the whole of 2007 and up to the date of approval of the Annual Report and Accounts

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following

- The Group's management operates a formal process for identifying, managing and reporting on operational, clinical and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a semi-annual basis Senior management team review meetings are held on at least a monthly basis at which the Group's business managers and executive team members report on the progress of the companies or discipline for which they are responsible and share best practice The formal process for identifying discipline-specific risks across the Group's operations encompasses financial, IT, human resources, legal, property and clinical risks A mechanism also exists to extend the Group's formal risk management processes to any significant new business acquired or begun by the Group immediately upon acquisition or start-up In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of 2007
- The Audit Committee of the Board reviews a register compiled by the managing director of each of the Group's businesses and registers compiled by certain members of the Group's senior management team, summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks
- In 2004, the Board took steps to better align its risk management processes with the operational imperatives of the businesses by adopting a dynamic risk-management process that assists the Group's operational management to identify developing trends at an early stage This has been used throughout 2007

As required by the Turnbull Guidance, the Board has carried out an annual assessment of the effectiveness of the system of internal controls The processes applied by the Board include

- At the end of the year, the managing directors of each of the Group's businesses, including the Group's corporate resource, are required to complete and sign a register of the key financial and operational risks facing the business for which they are responsible and to confirm that they have complied throughout the year with the Group's policies and procedures on risk management From these registers, a report identifying the key risks faced by the Group is compiled and signed by the Chief Executive, Finance Director and Company Secretary, who are also required to confirm their compliance with such procedures and policies This report and the annual compliance statements of each of the managing directors are reviewed by the Board before the Annual Report and Accounts are approved
- At each meeting the Audit Committee reviews reports of the senior management team, internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration
- At least twice a year, the Audit Committee reviews the work plans and results of the external auditors
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings

An internal audit function does not currently exist within the Group The Audit Committee are satisfied that this is appropriate but intend to keep it under regular review

The Group operates two comprehensive whistleblowing policies, in respect of clinical issues and general operational and financial matters

Auditors' report

Report to the shareholders of Nestor Healthcare Group plc

Independent auditors' report to the shareholders of Nestor Healthcare Group plc

We have audited the Group and Company financial statements (the "financial statements") of Nestor Healthcare Group plc for the year ended 31st December 2007 which comprise the Group income statement, the Group and Company balance sheets, the Group and Company statements of recognised income and expense, the Group and Company cash flow statements and the related notes These financial statements have been prepared under the accounting policies set out therein

We have also audited the information in the directors' remuneration report that is described as having been audited

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements This other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the Chairman's statement, the operating and financial reviews and the corporate governance statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited

Opinion

In our opinion

- The Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31st December 2007 and of its profit for the year then ended,
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- The Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31st December 2007,
- The Company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- The information given in the directors' report is consistent with the financial statements

BDO Stoy Hayward LLP Chartered Accountants and Registered Auditors, Hatfield

BDO Stoy Hayward LLP

10th April 2008

Group income statement

for the year ended 31st December 2007

	Notes	2007 £000	2006 £000
Continuing operations			
Revenue	3	**179,623**	172,640
Cost of sales		**(116,681)**	(112,682)
Gross profit		**62,942**	59,958
Administrative expenses		**(49,794)**	(41,352)
Operating profit	3	**13,148**	18,606
Finance income	5	**213**	21
Finance expense	5	**(4,447)**	(4,831)
Profit before taxation		**8,914**	13,796
Tax expense	6	**(3,085)**	(4,227)
Profit after tax for the year from continuing operations		**5,829**	9,569
Discontinued operations			
Loss after tax for the year from discontinued operations	17	**–**	(20,450)
Profit/(loss) for the year		**5,829**	(10,881)
Profit attributable to minority interests	30	**–**	24
Profit/(loss) attributable to equity shareholders of the Company		**5,829**	(10,905)
Profit/(loss) for the year		**5,829**	(10,881)
Earnings/(loss) per share			
Basic	9	**5 39p**	(11 69p)
Diluted	9	**5 38p**	(11 69p)
Earnings per share – continuing operations			
Basic	9	**5 39p**	10 26p
Diluted	9	**5 38p**	10 26p
Equity dividends	8	**(3,382)**	(2,629)
Dividends per share	8	**3 00p**	3 00p

Group and Company balance sheets

as at 31st December 2007

	Notes	Group 2007 £'000	Group 2006 £000	Company 2007 £ 000	Company 2006 £000
Non-current assets					
Goodwill	10	**97,191**	84,369	**–**	–
Other intangible assets	11	**485**	408	**–**	–
Property, plant and equipment	12	**3,558**	3,647	**–**	–
Deferred tax assets	18	**2,964**	5,710	**–**	–
Investments	14	**–**	–	**188,245**	188,267
Non-current assets		**104,198**	94,134	**188,245**	188,267
Current assets					
Trade and other receivables	19	**29,611**	28,031	**16,824**	7,726
Current tax asset		**71**	–	**–**	–
Cash and cash equivalents	22	**536**	92	**333**	–
Current assets		**30,218**	28,123	**17,157**	7,726
Current liabilities					
Borrowings – overdrafts	22	**(4,504)**	(6,790)	**–**	–
Derivative financial instruments	23	**(421)**	–	**(421)**	–
Trade and other payables	20	**(19,501)**	(18,314)	**(913)**	–
Current tax liabilities	20	**–**	(509)	**–**	–
Employment benefit liabilities	25	**(3,122)**	(1,978)	**–**	–
Property provisions	25	**(1,091)**	(1,020)	**–**	–
Current liabilities		**(28,639)**	(28,611)	**(1,334)**	–
Net current assets/(liabilities)		**1,579**	(488)	**15,823**	7,726
Total assets less current liabilities		**105,777**	93,646	**204,068**	195,993
Non-current liabilities					
Borrowings – loans	22	**(54,000)**	(70,000)	**(54,000)**	(70,000)
Employment benefit liabilities	25	**(3,250)**	(10,012)	**–**	–
Property provisions	25	**(1,279)**	(1,719)	**–**	–
Non-current liabilities		**(58,529)**	(81,731)	**(54,000)**	(70,000)
Net assets		**47,248**	11,915	**150,068**	125,993
Equity					
Called up share capital	27	**11,284**	8,763	**11,284**	8,763
Share premium account	28	**71,439**	43,225	**71,439**	43,225
Share payment reserve	28	**931**	951	**931**	951
Other reserves	28	**864**	864	**25,750**	25,750
Retained (losses)/earnings	28	**(37,270)**	(41,888)	**40,664**	47,304
Equity shareholders' funds		**47,248**	11,915	**150,068**	125,993

The notes on pages 39 to 76 form an integral part of these financial statements

The financial statements on pages 36 to 76 were approved by the Board on 10th April 2008 and were signed on its behalf by

J L Rennocks

M A Ellis

Group statement of recognised income and expense

for the year ended 31st December 2007

	Notes	2007 £000	2006 £000
Profit/(loss) for the year		**5,829**	(10,881)
Actuarial gains arising in defined benefit pension schemes	35	**3,267**	3,402
Deferred taxation arising on actuarial gains		**(915)**	(1,020)
Adjustment to deferred tax asset for change in rate of UK corporation tax		**(181)**	–
Net recognised income/(expense)		**8,000**	(8,499)
Net recognised income attributable to minority interests		–	24
Net recognised income/(expense) attributable to equity shareholders of the Company		**8,000**	(8,523)
Net recognised income/(expense)		**8,000**	(8,499)

Net recognised expense for the Company was the same as its loss in both 2007 and 2006 (see note 7)

Group and Company cash flow statements

for the year ended 31st December 2007

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Continuing operations				
Operating activities				
Cash generated from/(used in) operations (note 31)	**8,010**	20,211	**(7,281)**	17,365
Interest paid	**(4,233)**	(4,516)	**(3,739)**	(4,532)
Interest received	**31**	21	–	–
Income taxes paid	**(2,277)**	(4,513)	–	–
Net cash generated from/(used in) operating activities	**1,531**	11,203	**(11,020)**	12,833
Continuing operations				
Investing activities				
Purchase of property, plant and equipment (note 12)	**(1,475)**	(1,109)	–	–
Purchase of businesses and subsidiary undertakings (note 15)	**(8,841)**	(96)	–	–
Sale of subsidiary undertaking (note 16)	**162**	845	–	845
Net cash (used in)/generated from investing activities	**(10,154)**	(360)	–	845
Continuing operations				
Financing activities				
Issue of ordinary share capital (note 27)	**30,735**	1	**30,735**	1
Equity dividends paid to shareholders (note 8)	**(3,382)**	(2,629)	**(3,382)**	(2,629)
Decrease in loans from banks	**(16,000)**	(11,000)	**(16,000)**	(11,000)
(Decrease)/increase in bank overdrafts	**(2,286)**	5,803	–	–
Net cash generated by/(used in) financing activities	**9,067**	(7,825)	**11,353**	(13,628)
Net increase in cash and cash equivalents – continuing operations	**444**	3,018	**333**	50
Net decrease in cash and cash equivalents – discontinued operations (note 17)	–	(5,024)	–	(50)
Net increase/(decrease) in cash and cash equivalents	**444**	(2,006)	**333**	–
Cash and cash equivalents at the beginning of the year	**92**	2,098	–	–
Net increase/(decrease) in cash and cash equivalents	**444**	(2,006)	**333**	–
Cash and cash equivalents at the end of the year	**536**	92	**333**	–

Notes to the financial statements

for the year ended 31st December 2007

1 Basis of preparation

Both the Group and Company financial statements have been prepared by the directors in accordance with those International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations (SICs and IFRICs) which have been adopted by the European Commission and endorsed for use in the EU (collectively "Adopted IFRS") On publishing the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes

These financial statements have been prepared under the historical cost convention, other than for the valuation of certain financial instruments The financial statements have been prepared in pounds sterling which is the functional currency of the Group and the Company

The principal accounting policies are set out below

Estimates and judgements

The preparation of accounts in accordance with Adopted IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reported period These estimates are based on historical experience and various other assumptions that management and directors believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources Areas comprising critical judgements that may significantly affect the Group's earnings and financial position are bad debt provisioning, valuation of intangibles including goodwill, tax enquiries, provisions for pensions, income taxes, property related items and share-based payments, all of which are discussed in the respective notes

Adoption of new and revised standards

In the current year, the Group has adopted IFRS 7 "Financial Instruments Disclosures" which is effective for annual reporting periods beginning on or after 1st January 2007, and the related amendment to IAS 1 "Presentation of Financial Statements" The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 24) Four interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are effective for the current period These are IFRIC 7 "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies", IFRIC 8 "Scope of IFRS 2, Accounting for Share-based Payments", IFRIC 9 "Reassessment of Embedded Derivatives", and IFRIC 10 "Interim Financial Reporting and Impairment" The adoption of these interpretations has not led to any changes in the Group's accounting policies

At the year end, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective

IFRS 8 Operating Segments
IFRS 2 (Amendment) Vesting Conditions and Cancellations
IFRS 3 (Revised) Business Combinations
IAS 23 (Revised) Borrowing Costs
IAS 27 Consolidated and Separate Financial Statements
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Programmes
IFRIC 14 IAS 19 The Limits on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1st January 2009

2 Accounting policies

Basis of consolidation

The accounting reference date of the Group, comprising the Company and all its trading subsidiary undertakings, is 31st December These financial statements are accordingly presented for the year to 31st December 2007

Subsidiaries are those companies controlled directly or indirectly by Nestor Healthcare Group plc Control exists where the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities

The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the effective date of disposal The effective date of acquisition or disposal is considered to be the date when control passes Acquisitions have been accounted for using the purchase method of accounting The cost of acquisition so accounted for includes directly related capitalised costs

2 Accounting policies continued

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group

All intra-group transactions, balances, income and expenses are eliminated on consolidation

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date

Revenue

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes Revenue is recognised when services are supplied to external customers against orders received In the Social Care business segment, the point of supply is generally defined as the point at which a service user has received care services from the Group, which are usually provided on a daily basis In the Primary Care business segment, revenue is recognised either on the delivery of specific services or, for capacity-related contracts, on a time-elapsed basis as the principal contractual obligation is to provide an agreed level of capacity over a fixed term There is generally no obligation under these contracts to carry forward non-utilised capacity

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the asset's net carrying amount Dividend income from investments is recognised when shareholders' rights to receive payment have been established

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the period end exchange rates

Leases

Payments under operating lease arrangements are charged to the income statement on a straight line basis

Corporation tax

The amount included in the income statement is based on pre-tax reported profit or loss and is calculated taking into account temporary differences and the likelihood of realisation of deferred tax assets and liabilities The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

Deferred tax is provided using rates of tax that have been enacted or substantively enacted by the balance sheet date Deferred tax assets and liabilities are not discounted

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and when the Group intends to settle its current tax assets and liabilities on a net basis

Goodwill

Where the cost of acquisition exceeds the fair values attributable to the net assets acquired, the resulting goodwill is capitalised Goodwill is tested for impairment annually and also when indicators suggest that the carrying value may not be recoverable Goodwill is carried at cost less amortisation charged prior to the Group's transition to IFRS on 1st January 2004, less accumulated impairment losses Any impairment is recognised in the period in which it is identified

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2007 and prior years The directors have specifically evaluated the carrying values of goodwill for each such acquisition The recoverable amount of goodwill in each cash-generating unit is determined based on value in use calculations These calculations require the use of estimates for cash flow projections based on financial budgets approved by management, extrapolated using estimated growth rates which do not exceed the long-term average growth rate for the businesses in which the unit operates Key assumptions used for value in use calculations are budgeted operating profit, depreciation and capital expenditure, working capital requirements growing in line with the growth rates assumed of 2 5% nominal annual increase beyond the budgeted period, and a pre-tax discount rate of 13 5%

Prior to the adoption of IFRS, goodwill was amortised over a period not exceeding 20 years Following the adoption of IFRS, goodwill is not amortised Prior to 1st January 1998, purchased goodwill was written off to reserves on acquisition Under IFRS 1, such goodwill is not recognised on transition to IFRS nor is the goodwill transferred to the income statement on disposal of the investment, or if the investment becomes impaired

Other intangible assets

Other intangible assets represent the capitalised value of customer contracts Such contracts are capitalised at fair value and amortised over a period equal to the remaining life of each contract The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and impairment Depreciation is calculated so as to write down the cost of these assets to their estimated residual value in equal instalments over their estimated useful lives The ranges of estimated useful lives for each major asset category, which are reviewed annually, are

Plant and equipment, fixtures and fittings (including computer equipment)	3 to 8 years

The carrying value is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Investments

Investments in subsidiary undertakings are held at original cost less any provision for impairment

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount An impairment loss is recognised as an expense immediately

Employee benefits

The costs of providing pensions under defined benefit schemes are calculated using the projected unit credit method and spread over the period during which benefit is expected to be derived from the employee's services, in accordance with the advice of qualified actuaries Pension obligations are measured at the present value of estimated future cash flows discounted at rates reflecting the yields of high quality corporate bonds Pension scheme assets are measured at fair value at the balance sheet date Actuarial gains and losses, differences between the expected and actual returns, and the effects of changes in actuarial assumptions are recognised in the statement of recognised income and expense in the year they arise

The Group's contributions to defined contribution schemes are charged to the income statement as incurred

2 Accounting policies continued

Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, where the amount of the obligation can be reliably estimated and it is probable that the Group will be required to settle the obligation If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance expense

Where the Group has a possible obligation as a result of a past event that may, but probably will not, result in an outflow of economic benefits, no provision is made Disclosures are made of the contingent liability including where practicable an estimate of the financial effect, uncertainties relating to the amount or timing of the outflow of resources, and the possibility of any reimbursement

Cash and cash equivalents

Cash and cash equivalents comprise balances at banks that are not capable of being offset against overdrafts or other bank borrowings under group overdraft arrangements, together with balances of cash in hand

Share-based payments

IFRS 2 has been applied to all grants of equity instruments after 7th November 2002 in accordance with the provisions of the standard The Group issues equity-settled share-based payments to certain employees under the terms of various employee share and share option schemes, including long-term incentive plans and Save As You Earn share option schemes Equity-settled share-based payments are measured at fair value at the date of grant The fair value so determined at the grant date is expensed on a straight line basis over the vesting period, based on an estimate of the shares that will ultimately vest, and adjusted for the effect of non-market based vesting conditions Fair value has been measured using a stochastic simulation modelling valuation method

The fair values of awards granted prior to 7th November 2002 have not been charged to income

The liability to the Company in respect of these shares is accounted for as a capital contribution made to subsidiary companies by the Company, and as such is recognised as an increase in investments in the balance sheet of the Company

Financial instruments

In the year to 31st December 2007 the Group has adopted IFRS 7 "Financial Instruments Disclosure" In the opinion of the directors the accounting policies set out below are consistent with the requirements of this standard

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument

Financial assets are classified as either financial assets "at fair value through profit or loss" (FVTPL) or "loans and receivables" The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition

Financial assets are classified as FVTPL where the financial asset is held for trading or is designated as FVTPL A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near future or it is a derivative that is not designated and effective as a hedging instrument Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in finance income or expense in the income statement The net gain or loss recognised in the income statement incorporates any interest earned on the financial asset

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables Loans and receivables are measured at amortised cost using the effective interest method, less any impairment Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial

Financial assets, other than FVTPL, are assessed for indicators of impairment at each balance sheet date Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account When a trade receivable is considered uncollectable, it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against the allowance account Changes in the carrying amount of the allowance account are recorded in the income statement within administration expenses If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised

The Group has not classified any of its financial assets as held to maturity or available for sale

Financial liabilities are classified according to the substance of the contractual arrangements entered into Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities"

Financial liabilities are classified as FVTPL where the financial liability is held for trading A financial liability is classified as held for trading if it has been incurred principally for the purpose of disposal in the near future or it is a derivative that is not designated and effective as a hedging instrument Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in finance income or expense in the income statement The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability

The Group has entered into interest rate swap contracts to hedge its exposure to changes in interest rates (note 23) These derivative financial instruments are initially recognised at fair value at the date each contract is entered into and are subsequently remeasured to their fair value at each balance sheet date The resulting gain or loss is recognised in finance income or expense in the income statement immediately The fair value of these interest rate derivatives is obtained using quotations supplied by the counterparty banks

Other than the interest rate swaps noted above, the Group has not designated any other financial asset or liability as being FVTPL

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs Other financial liabilities are subsequently measured at amortised cost using the effective interest method The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period

Unless otherwise indicated, the carrying amounts of both financial assets and financial liabilities held by the Group are reasonable approximations of their respective fair values (note 24)

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability The Company's ordinary shares in issue are classified as equity instruments For the purposes of the disclosures given in note 24, the Group considers its capital to consist of ordinary share capital, share premium reserve, share payment reserve, other reserves and retained earnings

3 Segmental reporting

During the year operations were conducted and managed through two segments, Social Care and Primary Care, with results reported on this basis The Healthcare Staffing segment was demerged on 4th September 2006 and has been accounted for as a discontinued operation

Costs have been allocated on a specific basis where possible, and certain central costs allocated on a reasonable and consistent basis

The UK was the origin and destination of all of the Group's revenue in both 2007 and 2006 All revenue is derived from external customers All of the Group's operating profits/(losses) were earned in the UK, and all of the Group's operating assets and significantly all of the net assets were located in the UK

	2007 £000	2006 £000
Revenue by business segment		
Social Care	**124,204**	111,432
Primary Care	**55,419**	61,208
Total – continuing operations	**179,623**	172,640
Discontinued operations	**-**	41,807
Total revenue	**179,623**	214,447

Notes to the financial statements continued

for the year ended 31st December 2007

3 Segmental reporting continued

	Operating profit/(loss) 2007 £000	2006 £000
Operating profit/(loss) by business segment		
Social Care	**10,054**	14,159
Primary Care	**3,094**	4,447
Total – continuing operations	**13,148**	18,606
Discontinued operations	**–**	(20,926)
Total operating profit/(loss)	**13,148**	(2,320)

	2007 £000	Profit/(loss) 2006 £000
Profit for the year		
Operating profit by business segment – continuing operations		
Social Care	**10,054**	14,159
Primary Care	**3,094**	4,447
Total operating profit by business segment – continuing operations	**13,148**	18,606
Finance income	**213**	21
Finance expense	**(4,447)**	(4,831)
Profit before taxation	**8,914**	13,796
Tax expense	**(3,085)**	(4,227)
Profit after tax for the year from continuing operations	**5,829**	9,569
Discontinued operations		
Loss for the year from discontinued operations	**–**	(20,450)
Profit/(loss) for the year	**5,829**	(10,881)

	Segment assets 2007 £000	Segment liabilities 2007 £000	Net operating assets/(liabilities) 2007 £000
Analysis of operating assets and liabilities by business segment – 2007			
Social Care	73,304	(12,281)	61,023
Primary Care	54,530	(5,341)	49,189
Central	6,046	(11,042)	(4,996)
Total operating assets/(liabilities), including goodwill, at 31st December 2007	133,880	(28,664)	105,216

	2007 £000
Net assets per Group balance sheet	47,248
Net debt (note 22)	57,968
Total net operating assets, including goodwill, at 31st December 2007	105,216

	Segment assets 2006 £000	Segment liabilities 2006 £000	Net operating assets/(liabilities) 2006 £000
Analysis of operating assets and liabilities by business segment – 2006			
Social Care	59,549	(15,337)	44,212
Primary Care	58,700	(12,094)	46,606
Central	3,916	(6,121)	(2,205)
Total – continuing operations	122,165	(33,552)	88,613
Discontinued operations	–	–	–
Total operating assets/(liabilities), including goodwill, at 31st December 2006	122,165	(33,552)	88,613

	2006 £000
Net assets per Group balance sheet	11,915
Net debt (note 22)	76,698
Total net operating assets, including goodwill, at 31st December 2006	88,613

	Capital expenditure 2007 £000	Acquisitions 2007 £000	Depreciation 2007 £000	Amortisation of intangibles 2007 £000	Impairment of goodwill 2007 £000
Analysis of other segment items – 2007					
Social Care	321	8,841	412	493	–
Primary Care	860	–	737	–	–
Central	294	–	424	–	–
Total – continuing operations	1,475	8,841	1,573	493	–
Discontinued operations	–	–	–	–	–
Total	1,475	8,841	1,573	493	–

	Capital expenditure 2006 £000	Acquisitions 2006 £000	Depreciation 2006 £000	Amortisation of intangibles 2006 £000	Impairment of goodwill 2006 £000
Analysis of other segment items – 2006					
Social Care	131	–	778	331	–
Primary Care	359	–	745	–	–
Central	619	–	336	–	–
Total – continuing operations	1,109	–	1,859	331	–
Discontinued operations	7	–	137	–	14,470
Total	1,116	–	1,996	331	14,470

Notes to the financial statements continued

for the year ended 31st December 2007

4 Operating profit – continuing operations

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Operating profit of continuing operations is stated after charging/(crediting)				
Employee costs including share-based payments charge	**120,880**	107,403	**–**	–
Impairment of investment	**–**	–	**–**	16,171
Amortisation of intangible assets	**493**	331	**–**	–
Depreciation of property, plant and equipment	**1,573**	1,859	**–**	–
Loss on sale of property, plant and equipment	**4**	58	**–**	–
Gain on sale of subsidiary undertaking	**(156)**	(1,962)	**–**	–
Operating lease rentals				
Land and buildings	**2,901**	2,347	**–**	–
Plant and machinery	**1,037**	411	**–**	–

The impairment of investment accounted for in the Company in 2006 was made to reduce the carrying value by £16,171,000, being the fair value of the net assets of the Healthcare Staffing business that were demerged in September 2006

Remuneration of the Company's auditor in respect of audit and all other services was as shown below

	2007 £000	2006 £000
Fees payable for the audit of the annual accounts of the Group and Company	**135**	205
Fees payable for other services		
The audit of the Company's subsidiaries, pursuant to legislation	**15**	26
Other services supplied pursuant to legislation	**–**	325
Tax services	**–**	197
Services relating to corporate finance transactions	**–**	327
Fees payable for other services	**15**	875
Total fees payable to the Company's auditor	**150**	1,080

Auditors' remuneration relating to the statutory audit of the Company of £7,000 (2006 £25,000) was borne by another Group company Fees payable to the auditors for non-audit services to the Company are not disclosed, due to the fees being disclosed above on a consolidated basis

5 Finance income and expense

	2007 £000	2006 £000
Finance income		
Bank interest receivable	**31**	12
Net finance credit on defined benefit pension schemes (note 35)	**182**	9
Total finance income	**213**	21

	2007 £000	2006 £000
Finance expense		
Unwinding of discount in property provisions	**(126)**	(140)
Interest payable on bank loans and overdrafts	**(4,302)**	(4,690)
Interest payable on other loans	**–**	(1)
Fair value loss relating to interest rate derivative contracts	**(19)**	–
Total finance expense	**(4,447)**	(4,831)

6 Taxation

	2007 £000	2006 £000
UK corporation tax on taxable profit from continuing operations for the year	**(1,779)**	(3,477)
Over/(under) provision in previous years – current tax	**335**	(338)
Current tax charge	**(1,444)**	(3,815)
Deferred tax charge for the year	**(1,131)**	(412)
Change in tax rate	**(200)**	–
Under provision in previous years – deferred tax	**(310)**	–
Deferred tax charge	**(1,641)**	(412)
Tax expense for the year – continuing operations	**(3,085)**	(4,227)

The effective tax rate for the year is higher than the standard rate (30% (2006 30%)) of corporation tax for the UK The differences are explained below

	2007 £000	2006 £000
Profit from continuing operations at the standard rate of corporation tax at 30%	**(2,674)**	(4,139)
Effect of change in tax rate	**(137)**	–
Items not deductible	**(59)**	250
Deferred tax derecognised	**(240)**	–
Over/(under) provision in previous years – current tax	**335**	(338)
Under provision in previous years – deferred tax	**(310)**	–
Tax expense for the year – continuing operations	**(3,085)**	(4,227)

	2007 £000	2006 £000
UK corporation tax on taxable loss from discontinued operations for the year	**–**	815
Under provision in previous years – current tax	**–**	(145)
Current tax credit	**–**	670
Deferred tax charge for the year	**–**	(194)
Tax credit for the year – discontinued operations	**–**	476

7 Loss for the year

The loss after tax for the year dealt with in the accounts of the Company amounts to £3,258,000 (2006 loss of £1,260,000)
All of this loss relates to continuing operations (2006 loss of £1,210,000) and £nil to discontinued operations (2006 loss of £50,000)
As allowed by the provisions of s230 of the Companies Act 1985, the Company has not published its own income statement

8 Dividends

	2007 £000	2006 £000
Equity dividends paid		
Ordinary shares final dividend for the previous year 2 00p per 10p share (2006 2 00p)	**2,254**	1,753
Ordinary shares interim dividend for the current year 1 00p per 10p share (2006 1 00p)	**1,128**	876
Total dividends paid on equity shares 3 00p per 10p share (2006 3 00p per 10p share)	**3,382**	2,629
Dividend in specie relating to the demerger of the Healthcare Staffing business segment	**–**	16,171

In addition, the directors propose a final dividend for the year ending 31st December 2007 of 1 00p per 10p share (cost £1,128,442) and a resolution to this effect will be tabled at the Annual General Meeting

It is proposed that the dividend will be paid on 25th July 2008 to shareholders who are on the register of members on 27th June 2008

9 Earnings/(loss) per share

Basic earnings/(loss) per 10p share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares The Group has only one category of potentially dilutive ordinary shares those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year In the year to 31st December 2007 the only such options were 97,597 options granted under the Share Option Plan 2002 in November 2005 and 155,015 options granted under the Savings Related Share Option Scheme in April 2005

	2007 Earnings £000	2007 Weighted average number of 10p shares thousand	2007 Earnings per share pence	2006 Earnings/(loss) £000	2006 Weighted average number of 10p shares thousand	2006 Earnings/(loss) per share pence
Continuing operations						
Earnings per share	**5,829**	**108,243**	**5 39p**	9,569	87,633	10 92p
Bonus element of the 2007 rights issue	**–**	**–**	**–**	–	5,633	(0 66p)
Dilutive effect of options	**–**	**44**	**(0 01p)**	–	–	–
Diluted earnings per share	**5,829**	**108,287**	**5 38p**	9,569	93,266	10 26p
Continuing and discontinued operations						
Earnings/(loss) per share	**5,829**	**108,243**	**5 39p**	(10,905)	87,633	(12 44p)
Bonus element of the 2007 rights issue	**–**	**–**	**–**	–	5,633	0 75p
Dilutive effect of options	–	**44**	**(0 01p)**	–	–	–
Diluted earnings/(loss) per share	**5,829**	**108,287**	**5 38p**	(10,905)	93,266	(11 69p)

A total of 1,808,089 share options outstanding at the end of the year were not potentially dilutive in the year to 31st December 2007 (2006 2,418,451)

10 Intangible assets – goodwill

	2007 £000
Cost	
At 1st January 2007	152,864
Additions	13,029
Reductions	(203)
Disposals	(4)
At 31st December 2007	165,686
Aggregate amortisation	
At 1st January 2007 and 31st December 2007	68,495
Net book value	
At 31st December 2007	97,191

	2006 £000
Cost	
At 1st January 2006	187,290
Eliminated on demerger	(34,426)
At 31st December 2006	152,864
Aggregate amortisation	
At 1st January 2006	73,451
Impairment of goodwill relating to Healthcare Staffing	14,470
Eliminated on demerger	(19,426)
At 31st December 2006	68,495
Net book value	
At 31st December 2006	84,369

Group goodwill derives from the acquisition of businesses and subsidiary undertakings in 2007 and prior years The directors consider that goodwill represents value to the Group for which the recognition of a discrete intangible asset is neither permitted nor appropriate Such value primarily comprises future and potential future economic benefits including additional revenues and operating synergies that it is anticipated may be derived from the business, together with the fair value of the workforce in place at the date of acquisition

Where goodwill has derived from the acquisition of businesses and subsidiary undertakings in these years, the directors have specifically evaluated the carrying values of goodwill for each such acquisition The recoverable amount of goodwill in each cash-generating unit is determined based on value in use calculations These calculations require the use of estimates for cash flow projections based on one-year financial budgets approved by management, extrapolated for 10 years using estimated growth rates which do not exceed the long-term average growth rate for the businesses in which the unit operates, before applying a terminal value to these annual cash flows Key assumptions used for value in use calculations are budgeted operating profit, depreciation and capital expenditure, together with working capital (generally debtors less creditors) requirements growing in line with the growth rates assumed of 2 5% nominal annual increase beyond the budgeted period, and a pre-tax discount rate of 13 5% Having evaluated the carrying values of goodwill in this way, the directors have concluded that no impairment of goodwill is needed in the year for any cash-generating unit within the Social Care or Primary Care business segments In the prior year, the directors concluded that an impairment of goodwill was required for the Healthcare Staffing business segment, amounting to £14,470,000 This impairment was recognised prior to the demerger of this business segment and was included within the results for that segment as discontinued operations

The carrying amounts of goodwill by business segment are as follows

	2007 £000	2006 £000
Goodwill by business segment		
Continuing operations		
Social Care	**52,039**	39,217
Primary Care	**45,152**	45,152
Total	**97,191**	84,369

11 Other intangible assets

	2007 £000
Cost	
At 1st January 2007	1,355
Additions	570
At 31st December 2007	1,925
Aggregate amortisation	
At 1st January 2007	947
Charge for the year	493
At 31st December 2007	1,440
Net book value	
At 31st December 2007	485

	2006 £000
Cost	
At 1st January 2006 and 31st December 2006	1,355
Aggregate amortisation	
At 1st January 2006	616
Charge for the year	331
At 31st December 2006	947
Net book value	
At 31st December 2006	408

Other intangible assets represent the capitalised value of customer contracts acquired via business combinations (acquisitions of businesses and subsidiary undertakings) made since 1st January 2004 Such contracts are capitalised at fair value and amortised over a period equal to the remaining life of each contract Contract lives so amortised varied between one year and five years All were within the Social Care business segment at both 31st December 2007 and 31st December 2006

All of the other intangible assets were owned by subsidiary undertakings of the Company at both 31st December 2007 and 31st December 2006

The Group carries out reviews of its intangible assets on an annual basis to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable If any such indication exists, the recoverable amount of the asset is estimated as either the higher of the net selling price or value in use, the resultant loss (the difference between the carrying amount and the recoverable amount) is recorded as a charge to the consolidated income statement The value in use is calculated as the present value of the estimated future cash flows expected to result from the use of assets in the business being evaluated In order to determine the present value of estimated future cash flows, the Group uses a discount rate of 13 5% based on its estimated weighted cost of capital, together with any risk premium as appropriate Estimated future cash flows used in the impairment calculations represent management's best view of likely market conditions including selling prices, volumes and employment costs Actual cash flows may differ significantly from these estimates due to the effect of changes in market conditions or to subsequent decisions on the activities of the business These differences may have a material impact on the asset values, impairments and amortisation expense reported in future periods

12 Property, plant and equipment

Group	2007 £000
Cost	
At 1st January 2007	12,693
Additions	1,475
Acquired by acquisition	15
Eliminated on disposal of subsidiary	(10)
Disposals	(97)
At 31st December 2007	14,076
Depreciation	
At 1st January 2007	9,046
Charge for the year	1,573
Eliminated on disposal of subsidiary	(8)
Eliminated on disposals	(93)
At 31st December 2007	10,518
Net book value	
At 31st December 2007	3,558

Group	2006 £000
Cost	
At 1st January 2006	13,907
Additions	1,116
Eliminated on demerger	(1,909)
Eliminated on disposal of subsidiary	(258)
Disposals	(163)
At 31st December 2006	12,693
Depreciation	
At 1st January 2006	8,802
Charge for the year	1,996
Eliminated on demerger	(1,467)
Eliminated on disposal of subsidiary	(180)
Eliminated on disposals	(105)
At 31st December 2006	9,046
Net book value	
At 31st December 2006	3,647

13 Commitments

	2007 £000	2006 £000
Capital expenditure that has been contracted but not provided for	–	–

The Company has made a commitment to the Pensions Regulator to make cash payments into both defined benefit pension schemes Cash payments of at least £1,280,000 will be paid each year up to and including 2012 into the Nestor Healthcare Group Retirement Benefits Scheme, whilst cash payments of £1,150,000 will be paid each year up to and including 2013 into the Healthcall Group Limited Pension Scheme It is planned that these payments will eliminate the funding deficits on both schemes over a period not exceeding seven years

14 Investments

	Investment in subsidiaries 2007 £000
Company	
At 1st January 2007	188,267
Disposals	(2)
Capital contributions for share-based payments	(20)
At 31st December 2007	188,245

	Investment in subsidiaries 2006 £000
Company	
At 1st January 2006	114,123
Additions	90,000
Impairment	(16,171)
Capital contributions for share-based payments	315
At 31st December 2006	188,267

In September 2006, immediately prior to the demerger of the Healthcare Staffing business segment, £90,000,000 due to the Company by a subsidiary by way of intercompany loan was waived Following this waiver, the amount remaining due to the Company on this intercompany loan reduced from £92,033,000 to £2,033,000 This waiver has been accounted for by the Company as a capital contribution thereby increasing the carrying value of investments

Subsequently, on demerger, an impairment was accounted for by the Company in the carrying value of investments equivalent to the amount of the dividend in specie, £16,171,000, made by a subsidiary company Investments in Group undertakings are stated at cost less impairments

Except where stated, the following subsidiary companies are wholly-owned including 100% voting rights, operate in the UK and are registered in England and Wales All companies have been included in the consolidated results of the Group

Principal undertakings

Undertaking	Business
Nestor Primecare Services Limited[1]	UK healthcare services in primary and social care
Nestor Equipment Leasing Limited[1]	Provision of asset leasing
Helenus Limited	Intermediate holding company

[1] The interest of Nestor Healthcare Group plc is held through intermediate holding companies

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length A full list of subsidiary undertakings will be annexed to the Company's next annual return

Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note The Group had no material transactions with other related parties during the year

Details of any transactions with directors are set out in the remuneration report Compensation of directors and key management is disclosed in note 34 During the year there were no other material transactions or balances between the Group and its key management personnel or members of their close family

Company

The Company receives dividends from, and recharges certain costs to, subsidiary undertakings in the normal course of business Dividend income received in the year amounted to £nil (2006 £16,171,000) Amounts recharged to subsidiaries amounted to £155,000 (2006 £nil) Amounts outstanding at 31st December 2007 and 31st December 2006 between the Company and subsidiary undertakings are disclosed in note 19

In 2006, the Company waived £90,000,000 due from a subsidiary undertaking This waiver was accounted for as a capital contribution, thereby increasing the carrying value of investments

15 Purchase of businesses and subsidiaries

Six companies and one unincorporated business were acquired in the year to 31st December 2007 All were in the Social Care business segment

The provisional fair values of assets and liabilities acquired in the year, and adjustments thereof relating to the 2003 and 2005 acquisitions, and the goodwill arising are outlined in the table below All values of assets, liabilities and goodwill arising on the 2007 acquisitions will be finalised in the 2008 financial statements, when detailed reviews of businesses acquired are completed The payment of deferred consideration will in part be dependent on future performance of the businesses acquired

Intangible assets acquired represent the capitalised value of customer contracts These have been capitalised at fair value and amortised over the remaining life of each contract Contract lives so amortised vary between one year and five years

	2007 Acquisitions £000	Adjustments re 2003 and 2005 acquisitions £000	Total £000
Property, plant and equipment	15	–	15
Intangible assets	570	–	570
Non-current assets	585	–	585
Current assets and liabilities			
Receivables and prepayments	1,788	–	1,788
Payables and accruals	(3 161)	–	(3,161)
Net cash	1,102	–	1,102
Net current liabilities	(271)	–	(271)
Provisions	(250)	–	(250)
Net assets acquired	64	–	64
Purchase consideration	13,020	(194)	12,826
Costs of acquisition	64	–	64
Total cost	13,084	(194)	12,890
Total goodwill arising in the period	13,020	(194)	12,826

A fair value adjustment of £238,000 has been made to account for the accrued dilapidations provision in respect of acquired entities A fair value exercise carried out for each acquisition identified £570,000 of intangible assets With these exceptions, the fair value and book value of all other assets and liabilities acquired were materially the same

15 Purchase of businesses and subsidiaries continued

Cash flows in respect of purchase of businesses	£000	£000	Total £000
2007 acquisitions			
Total consideration	13,020	–	13,020
Costs of acquisition	64	–	64
	13,084	–	13,084
Less deferred and contingent consideration accrued, not yet paid	(3,250)	–	(3,250)
	9,834	–	9,834
Less net cash acquired	(1,102)	–	(1,102)
	8,732	–	8,732
2005 acquisitions			
Deferred and contingent consideration, previously accrued, paid in 2007	–	109	109
Total net cash flows in respect of purchase of businesses	8,732	109	8,841

Acquisitions contributed £8,033,000 (2006 £nil) to revenue and £898,000 (2006 £nil) to operating profit in the year If these acquisitions had been completed on the first day of the year, Group revenue would have been £183,175,000 and Group profit attributable to equity holders of the Company would have been £6,297,000

16 Disposals

On 26th November 2007 the Group transferred the trade and certain assets of its Carewatch Norfolk business to a dormant subsidiary, Nene Valley Care Limited This subsidiary was then immediately disposed of for a consideration of £162,000

	£000
Cash flows in respect of disposal of subsidiary undertaking	
Total consideration	162
Total cash flow in respect of disposal of subsidiary undertaking	162

Profit on disposal of the 100% shareholding in Nene Valley Care Limited was £156,000, computed as follows

	£000
Net assets	
Property, plant and equipment	2
Purchased goodwill	4
Net assets of Nene Valley Care Limited	6
Total consideration	162
Profit on disposal	156

17 Discontinued operations

	2007 £000	2006 £000
Loss of discontinued operations		
Operating loss of discontinued operations before goodwill impairment	–	(3,286)
Impairment of goodwill	–	(14,470)
Operating loss of discontinued operations	–	(17,756)
Tax credit	–	476
Loss after tax of discontinued operations	–	(17,280)
Losses on demerger of discontinued operations		
Costs relating to the demerger	–	(3,170)
Loss for the year from discontinued operations	–	(20,450)

	2007 £000	2006 £000
Cash flows relating to discontinued operations		
From operating activities	–	(6,822)
From investing activities	–	1,798
Net decrease in cash and cash equivalents in discontinued operations	–	(5,024)

18 Deferred tax assets

	2007 £000	2006 £000
Pension liability (note 35)	**1,784**	3,597
Accelerated capital allowances	**1,083**	1,425
Intangible assets	**10**	284
Share-based payments	–	270
Other	**87**	134
Total recognised deferred tax assets	**2,964**	5,710

The Group also has unprovided potentially recognisable deferred tax assets of £240,000 (2006 £nil) in relation to short-term timing differences which are currently not expected to reverse All other potentially recognisable tax assets have been recognised and included within non-current assets

There were no deferred tax assets of the Company at either 31st December 2007 or 31st December 2006

Notes to the financial statements continued

for the year ended 31st December 2007

19 Trade and other receivables

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade receivables				
– Gross	**20,470**	18,269	**–**	–
– Bad debt provision	**(692)**	(545)	**–**	–
Amounts owed by Group companies	**–**	–	**16,229**	7,726
Accrued income and other receivables	**7,262**	7,064	**595**	–
Prepayments	**2,571**	3,243	**–**	–
Trade and other receivables due within one year	**29,611**	28,031	**16,824**	7,726

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated Accordingly, management believes that there is no further credit risk provision required in excess of normal provision for doubtful receivables All receivables are due from customers resident in and trading in the UK The net of the gross value of trade receivables and any related provision represents the carrying value which is equal to fair value There is no difference between the carrying amount and the maximum credit risk exposure

20 Current liabilities – falling due within one year

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Bank overdrafts (note 22)	**4,504**	6,790	**–**	–
Derivative financial instruments	**421**	–	**421**	–
Trade payables	**3,256**	4,777	**–**	–
Other payables	**4,020**	1,707	**–**	–
Deferred consideration for acquisitions	**3,250**	520	**–**	–
Accruals and deferred income	**5,784**	7,394	**913**	–
US payroll tax	**–**	1,407	**–**	–
Other UK tax and social security	**3,191**	2,509	**–**	–
Current tax liabilities	**–**	509	**–**	–
Employment benefit liabilities (note 25)	**3,122**	1,978	**–**	–
Property provisions (note 25)	**1,091**	1,020	**–**	–
Total current liabilities	**28,639**	28,611	**1,334**	–

Of the deferred consideration for acquisitions, £2,400,000 (2006 £520,000) is contingent upon future profitability of the acquired businesses

21 Non-current liabilities – amounts falling due after more than one year

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Bank loans (note 22)	**54,000**	70,000	**54,000**	70,000
Employment benefit liabilities (note 25)	**3,250**	10,012	**–**	–
Property provisions (note 25)	**1,279**	1,719	**–**	–
Total non-current liabilities	**58,529**	81,731	**54,000**	70,000

22 Net borrowings

	Interest rates	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Secured					
Bank overdrafts and loans	variable	**(58,504)**	(76,790)	**(54,000)**	(70,000)
Total borrowings		**(58,504)**	(76,790)	**(54,000)**	(70,000)
Cash at bank and in hand		**536**	92	**333**	–
Net borrowings		**(57,968)**	(76,698)	**(53,667)**	(70,000)

At 31st December 2007 all the bank overdrafts and loans were secured by a fixed and floating charge over Group assets

Net borrowings for the Group are summarised as follows

	Repayable within 1 year £000	Repayable between 1 and 2 years £000	Repayable between 2 and 3 years £000	Total £000
Secured				
Bank overdrafts and loans	(4,504)	(54,000)	–	(58,504)
Total borrowings	(4,504)	(54,000)	–	(58,504)
Cash at bank and in hand	536	–	–	536
At 31st December 2007	(3,968)	(54,000)	–	(57,968)
At 31st December 2006	(6,698)	–	(70,000)	(76,698)

Net borrowings for the Company are summarised as follows

	Repayable within 1 year £000	Repayable between 1 and 2 years £000	Repayable between 2 and 3 years £000	Total £000
Secured				
Bank loans	–	(54,000)	–	(54,000)
Total borrowings	–	(54,000)	–	(54,000)
Cash at bank and in hand	333	–	–	333
At 31st December 2007	333	(54,000)	–	(53,667)
At 31st December 2006	–	–	(70,000)	(70,000)

23 Derivative financial instruments

Counterparties to the financial instruments entered into by the Group are major international financial institutions with high long-term credit ratings The Group monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy thereby limiting its exposure to any one party to ensure that they are within Board approved limits and that there are no significant concentrations of credit risk

At 31st December 2007 the Group has entered into interest rate swap contracts to hedge its exposure to changes in interest rates These derivative financial instruments are initially recognised at fair value at the date each contract is entered into and are subsequently remeasured to their fair value at each balance sheet date The resultant gain or loss is recognised within the income statement within finance income or expense Hedge accounting has not been applied This practice is considered to be consistent with the requirements of IAS 39 "Financial instruments Recognition and Measurement" Before 2007, the Group did not have any material financial instruments required to be recognised or measured under IAS 39

The fair value of the interest rate derivatives is obtained using quotations supplied by the counterparty banks

23 Derivative financial instruments continued

At 31st December 2007 the Group has entered into two such derivatives with a combined notional value of £60,000,000 One, for a notional sum of £45,000,000, has the effect of restricting LIBOR rates on that level of borrowings to a range between 4 50% and 7 00%, whilst the other, for a notional sum of £15,000,000, has the effect of restricting LIBOR rates on that level of borrowings to a range between 4 85% and 7 00% At 31st December 2007 the fair value of these two products combined was minus £421,000, this negative fair value has been accounted for within current liabilities The associated loss has been charged to finance expense offset by a gain of £402,000 accounted for earlier in the year when interest rate derivative contracts that had then been held were cancelled with their final fair value of positive £402,000 being realised for cash The net charge to finance expense in the year was accordingly £19,000 Both of the open derivatives expire in 2010

24 Financial instruments

The Group has exposure to certain risks arising from its use of financial instruments, these being categorised as market risk, credit risk, liquidity risk and capital risk This note describes the financial instruments used, their values, the risks to which the Group is exposed and the Group's objectives, policies and processes for measuring and managing them Unless otherwise stated references to the Group should be considered to apply to the Company as well Further quantitative information in respect of the financial instruments used and the associated risks is also presented throughout these financial statements and the financial review

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash at bank, bank overdrafts, trade and other payables, floating rate bank loans and interest rate derivative contracts The Board of directors has overall responsibility for the determination of the Group's risk management objectives and policies, the overall objective being to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and competitiveness

A summary of financial assets and liabilities (which taken together comprise the financial instruments), measured both at carrying value and fair value, is as follows

	2007 Carrying value £000	2007 Fair value £000	2006 Carrying value £000	2006 Fair value £000
Group				
Financial assets – cash at bank and in hand – sterling	**416**	**416**	92	92
Financial assets – cash at bank and in hand – Australian dollars	**120**	**120**	–	–
Financial assets – cash and cash equivalents	**536**	**536**	92	92
Financial assets – trade receivables	**19,778**	**19,778**	17,724	17,724
Financial assets – loans and receivables	**19,778**	**19,778**	17,724	17,724
Total financial assets	**20,314**	**20,314**	17,816	17,816
Short-term financial liabilities – bank borrowings	**(4,504)**	**(4,504)**	(6,790)	(6,790)
Short-term financial liabilities – trade payables	**(3,256)**	**(3,256)**	(4,777)	(4,777)
Short-term financial liabilities – other payables	**(4,020)**	**(4,020)**	(1,707)	(1,707)
Short-term financial liabilities – other UK tax and social security	**(3,191)**	**(3,191)**	(2,509)	(2,509)
Long-term financial liabilities – bank borrowings	**(54,000)**	**(54,000)**	(70,000)	(70,000)
Financial liabilities at amortised cost	**(68,971)**	**(68,971)**	(85,783)	(85,783)
Interest rate derivatives	**(421)**	**(421)**	–	–
Financial liabilities at fair value	**(421)**	**(421)**	–	–
Total financial liabilities	**(69,392)**	**(69,392)**	(85,783)	(85,783)
Financial liabilities less financial assets	**(49,078)**	**(49,078)**	(67,967)	(67,967)

	2007 Carrying value £000	2007 Fair value £000	2006 Carrying value £000	2006 Fair value £000
Company				
Financial assets – cash at bank and in hand – sterling	**333**	**333**	–	–
Financial assets – cash and cash equivalents	**333**	**333**	–	–
Financial assets – amounts due from Group companies	**16,229**	**16,229**	7,726	7,726
Financial assets – loans and receivables	**16,229**	**16,229**	7,726	7,726
Total financial assets	**16,562**	**16,562**	7,726	7,726
Long-term financial liabilities – bank borrowings	**(54,000)**	**(54,000)**	(70,000)	(70,000)
Financial liabilities at amortised cost	**(54,000)**	**(54,000)**	(70,000)	(70,000)
Interest rate derivatives	**(421)**	**(421)**	–	–
Financial liabilities at fair value	**(421)**	**(421)**	–	–
Total financial liabilities	**(54,421)**	**(54,421)**	(70,000)	(70,000)
Financial liabilities less financial assets	**(37,859)**	**(37,859)**	(62,274)	(62,274)

Financial assets and liabilities determined by category are accordingly as follows

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Financial assets – cash and cash equivalents	**536**	92	**333**	–
Financial assets – loans and receivables	**19,778**	17,724	**16,229**	7,726
Financial assets – total	**20,314**	17,816	**16,562**	7,726
Financial liabilities at amortised cost	**(68,971)**	(85,783)	**(54,000)**	(70,000)
Financial liabilities at fair value	**(421)**	–	**(421)**	–
Financial liabilities less financial assets	**(49,078)**	(67,967)	**(37,859)**	(62,274)

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest

No financial assets held have been pledged as collateral for liabilities or contingent liabilities

Further disclosures on the interest rate derivatives included within financial liabilities at fair value are contained within note 23

Income and expense in relation to financial instruments are disclosed in note 5

Market risk

Market risk represents the potential for changes in foreign exchange prices and interest rates to affect the Group's profit and the value of its financial instruments In general the Group's objective in market risk management is to minimise its exposures to fluctuations within such variables whilst optimising returns

Foreign exchange risk

Bank balances denominated in Australian dollars have not been hedged as in the view of directors the amounts at risk were not material In March 2008 all such balances were repatriated to the UK and converted into sterling at a total amount not materially different from the carrying value of £120,000 as at 31st December 2007 Following this repatriation of bank balances the Group no longer has any significant currency exposure to Australian dollars or to any other foreign currency No sensitivity analysis has therefore been carried out

24 Financial instruments continued

Interest rate risk

The interest rate profile of the financial liabilities of the Group and Company at 31st December 2007 was

	Group Floating rate financial liabilities £000	Company Floating rate financial liabilities £000
At 31st December 2007 – bank borrowings – all sterling	58,504	54,000
At 31st December 2006 – bank borrowings – all sterling	76,790	70,000

All financial liabilities other than bank borrowings have been excluded from this analysis due to their short-term nature

The Group's policy is generally to seek to hedge its exposure to the effect of interest rate variations by entering into interest rate derivatives The interest rate swaps that have been entered into (as further described in note 23) are considered by directors to provide an effective hedge against any interest rate movements outside of a defined central range (see sensitivity analysis below)

All floating rate interest rates are linked either to LIBOR or to bank base rates These interest rates, when applied to the floating rate financial liabilities, are generally fixed in advance for periods of between one month and six months

The interest rate profile of the Group's financial assets was

	Floating rate financial assets 2007 £000	Financial assets on which no interest received 2007 £000	Total 2007 £000
Currency			
Sterling	411	5	416
Australian dollars	120	–	120
At 31st December 2007	531	5	536

	Floating rate financial assets 2006 £000	Financial assets on which no interest received 2006 £000	Total 2006 £000
Currency			
Sterling	86	6	92
At 31st December 2006	86	6	92

The Company's financial assets at 31st December 2007 of £333,000 (2006 £nil) all consisted of floating rate financial assets

The financial assets comprise bank deposits, bank current account balances and cash in hand The floating rate financial assets earn interest at rates based on LIBOR and are all recoverable within one year or on demand The financial assets on which no interest is received represent cash in hand The effect of variations in interest rates on finance income generated from these financial assets is considered to be generally not material

Interest rate risk – sensitivity analysis

In 2007 the impact of a 1 00% increase in variable interest rates would, so long as the interest rate remained in the range between 4 50% and 7 00%, have the effect of reducing Group profit before tax by approximately £550,000, assuming other variables remain constant and not allowing for any impact of such a variation on the fair value of the interest rate swaps themselves Similarly the impact of a 2 00% increase in variable interest rates would have the effect of reducing Group profit before tax by approximately £1,100,000, subject to the same assumptions

If variable interest rates were to fall below 4 50% the Group's profit would not receive any significant benefit from the reduction below that figure so long as its total floating rate bank borrowings remained at a similar level to the notional value of its interest rate swaps, which were £60,000,000 at 31st December 2007, assuming again that other variables remained constant and not allowing for any impact of such a variation on the fair value of the interest rate swaps themselves

If variable interest rates were to rise above 7 00% the Group's profit would not receive any significant adverse impact from the rise above that figure so long as its total floating rate bank borrowings remained at a similar level to the notional value of its interest rate swaps, which were £60,000,000 at 31st December 2007, assuming again that other variables remained constant and not allowing for any impact of such a variation on the fair value of the interest rate swaps themselves

Credit risk

The directors consider that by the nature of the Group's business and customers its exposure to credit risk is very limited In particular, concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated Accordingly management believes that there is no further credit risk provision required in excess of normal provision for doubtful receivables All receivables are due from customers resident in and trading in the UK The net of the gross value of trade receivables and any related bad debt provision represents the carrying value which is equal to fair value There is no difference between the carrying amount and the maximum credit risk exposure

Credit checks are not generally carried out for new customers given their usual status as large public bodies such as Local Authorities, Primary Care Trusts, Police Authorities and secure institutions Private patients of the Social Care businesses are requested to pay by direct debit wherever possible Considerable resource is expended on the Group's credit control activity so as to optimise the control of trade receivables and in particular to minimise debtor days outstanding, overdue receivables and the need for any impairments

The Group records impairment losses on its trade receivables separately from gross receivables In 2007 the allowance increased from £545,000 at 31st December 2006 to £692,000 at 31st December 2007

An analysis of trade and other receivables is contained in note 19

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial obligations as they fall due The Group's strategy and policy in respect of managing liquidity risk is to ensure that the Group has sufficient liquid funds at all times to meet all of its actual and potential liabilities as they fall due, including anticipated shareholder distributions Sensitivities are applied to all projections of liabilities and liquid resources to ensure that resources will remain sufficient under all reasonable downside projections

Liquidity forecasts are produced on a weekly basis, or when drawing on the facilities, to ensure that utilisation of current facilities is optimised, and also on a monthly and quarterly basis to project compliance with covenant compliance targets agreed with the Group's bankers and to ensure that medium-term liquidity is maintained

The maturity profile of the bank borrowings of the Group and Company, including interest payments (not discounted) at 31st December 2007 was as shown in the table below Interest payments have been calculated using LIBOR rates at the year end, except where rates had already been contracted

	Group 2007 £000	Company 2007 £000
Within 1 year, or on demand	9,664	4,763
Between 1 and 2 years	58,366	58,366
Between 2 and 5 years	–	–
At 31st December 2007	68,030	63,129

	Group 2006 £000	Company 2006 £000
Within 1 year, or on demand	11,674	4,452
Between 1 and 2 years	4,452	4,452
Between 2 and 5 years	74,081	74,081
At 31st December 2006	90,207	82,985

The Group had the following undrawn floating rate committed borrowing facilities available in respect of which all conditions precedent had been met at that date

24 Financial instruments continued

	2007 £000	2006 £000
Expiring within 1 year	**8,874**	1,280

All the above facilities incur commitment fees at market rates

These facilities are considered to be adequate to meet all of the Group's cash flow requirements for the foreseeable future barring any potential impact of extreme circumstances that could not reasonably be anticipated

Capital risk

The directors continue to monitor the balance of capital and debt funding for the Group though no formal target is currently being applied In March 2007 the Group raised £30,500,000 net of expenses, by way of a rights issue, partly to reduce debt levels but primarily to raise funds to pursue acquisition opportunities for its Social Care businesses In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions by way of dividends

Financial covenants agreed with the Group's bankers include the ratio of net borrowings to the level of adjusted profit before interest, depreciation and amortisation Following renegotiation in 2007, the maximum level of this ratio is now set at 3 99 1, measured quarterly, until 31st December 2008 when it falls to 3 25 1 The actual ratio as at 31st December 2007 was 3 68 1

One further financial covenant requires Group net worth, excluding goodwill, not to be below an adjusted negative value of £(83,000,000) At 31st December 2007 the actual adjusted net worth excluding goodwill was £(50,261,000)

These and all other financial covenants agreed with the Group's bankers were complied with at all times in 2007

25 Provisions

	Pensions 2007 £000	Property 2007 £000	Total 2007 £000
Group – 2007			
At 1st January 2007	11,990	2,739	14,729
Contributions paid	(2,742)	–	(2,742)
Current service cost	573	–	573
Finance credit	(182)	–	(182)
Actuarial gain	(3,267)	–	(3,267)
Charge to income statement	–	571	571
Utilised in the year	–	(1,304)	(1,304)
Acquired with subsidiary undertaking	–	238	238
Unwinding of discount	–	126	126
At 31st December 2007	6,372	2,370	8,742
Provisions estimated to be settled after more than one year	3,250	1,279	4,529
Provisions estimated to be settled within one year	3,122	1,091	4,213
Total provisions	6,372	2,370	8,742

The Company carried no provisions at either 31st December 2007 or 31st December 2006

	Pensions 2006 £000	Property 2006 £000	Total 2006 £000
Group – 2006			
At 1st January 2006	16,221	3,707	19,928
Contributions paid	(1,425)	–	(1,425)
Current service cost	605	–	605
Finance credit	(9)	–	(9)
Actuarial gain	(3,402)	–	(3,402)
Charge to income statement	–	692	692
Utilised in the year	–	(1,649)	(1,649)
Released on demerger	–	(151)	(151)
Unwinding of discount	–	140	140
At 31st December 2006	11,990	2,739	14,729
Provisions estimated to be settled after more than one year	10,012	1,719	11,731
Provisions estimated to be settled within one year	1,978	1,020	2,998
Total provisions	11,990	2,739	14,729

Pensions

The actuarial deficits on the Group's two defined benefit pension schemes total £6,372,000 (2006 £11,990,000) The assumptions used in calculating the combined deficit, and description of the schemes and their assets and liabilities generally, are further described in note 35

Property

The Group has a number of properties that are either vacant or sublet at a discount

The Group property provision of £2,370,000 (2006 £2,739,000) comprises £894,000 (2006 £1,766,000) in respect of lease contracts for such properties no longer occupied by the Group, £285,000 (2006 £173,000) in respect of associated lease dilapidations, £nil (2006 £11,000) in respect of associated other exit costs, and £1,191,000 (2006 £789,000) in respect of lease dilapidation obligations relating to properties that continue to be occupied Dilapidations payments are assumed to occur at the end of each relevant lease

Provision has been made for onerous lease costs taking into account estimates of the length of time properties will be vacant (net of any potential sub-lease income where this can be estimated with a high degree of probability), together with any dilapidation costs and other costs associated with the termination or disposal of leases In determining the provision for vacant properties, the cash flows have been discounted using the Group's weighted average cost of capital The estimates used in determining the appropriate level of provision represent management's best view of likely market conditions after taking external advice Actual activity may differ from these estimates due to the effect of changes in the property market or subsequent business decisions These differences may have a material impact on the provisions established for these matters

26 Contingent liabilities

By the nature of the operations carried out by the Primary Care business segment, the Group from time to time receives notification of medical incidents which could conceivably lead to claims for damages being made against the Group on the grounds of negligence or other reasons In the majority of cases such incidents, having been notified, do not in fact lead to a claim being made Even if claims are made, they may be laid against parties other than the Group In any event, even if claims are ultimately laid against the Group, they will generally be covered by the Group's insurers subject only to relatively minor excesses Nonetheless it is possible that in certain circumstances the Group could face a material liability when presented with such claims Time lags between an original incident and a claim being submitted could typically be long so at any point in time the likelihood of the Group facing such a liability may be difficult to assess

As at 31st December 2007, the Group was not aware of any such claim for which it was considered probable that the Group would ultimately face a material liability

27 Share capital

Authorised	2007 Number	2007 £000	2006 Number	2006 £000
Ordinary shares of 10p each				
At 1st January 2007	**96,000,000**	**9,600**	96,000,000	9,600
Authorised during the year	**26,000,000**	**2,600**	-	-
At 31st December 2007	**122,000,000**	**12,200**	96,000,000	9,600

Allotted, issued and fully paid	2007 Number	2007 £000	2006 Number	2006 £000
Ordinary shares of 10p each				
At 1st January 2007	**87,633,539**	**8,763**	87,633,070	8,763
Issued during the year	**25,210,670**	**2,521**	469	-
At 31st December 2007	**112,844,209**	**11,284**	87,633,539	8,763

On 9th February 2007 approval was given for the authorised share capital of the Company to be increased to £12,200,000, by the creation of 26,000,000 new ordinary shares of 10 pence each

In March 2007 a total of 25,037,620 ordinary 10 pence shares were issued by way of a 2 for 7 rights issue at 130 pence per ordinary share A further 173,050 10 pence ordinary shares were issued during the year on exercise of share options, at prices ranging from 121 16 pence to 157 12 pence per ordinary share Total proceeds of all issues in the year, after associated expenses of issue which totalled £2,063,000, amounted to £30,735,000

The ordinary shares in issue are considered by the Company to be capital in nature Neither the Group nor the Company are subject to any externally imposed capital requirements

28 Share premium account and reserves

	Share premium account 2007 £000	Share payment reserve 2007 £000	Other reserves 2007 £000	Retained (losses)/ earnings 2007 £000
Group – 2007				
At 1st January 2007	43,225	951	864	(41,888)
Issue of shares	28,214	–	–	–
Share-based payments	–	(20)	–	–
Actuarial gains arising in defined benefit pension schemes	–	–	–	3,267
Deferred taxation arising on actuarial gains	–	–	–	(1,096)
Profit for the year	–	–	–	5,829
Dividends paid to equity shareholders	–	–	–	(3,382)
At 31st December 2007	71,439	931	864	(37,270)

At 31st December 2007, goodwill written off in prior years directly against retained earnings/(losses) in respect of subsidiaries still held by the Group was £16,891,000 (31st December 2006 £16,891,000)

	Share premium account 2007 £000	Share payment reserve 2007 £000	Other reserves 2007 £000	Retained earnings/ (losses) 2007 £000
Company – 2007				
At 1st January 2007	43,225	951	25,750	47,304
Issue of shares	28,214	–	–	–
Share-based payments	–	(20)	–	–
Loss for the year	–	–	–	(3,258)
Dividends paid to equity shareholders	–	–	–	(3,382)
At 31st December 2007	71,439	931	25,750	40,664

Included in other reserves of the Company at 31st December 2007 are £25,750,000 of distributable reserves (2006 £25,750,000) and no non-distributable reserves (2006 £nil) These other reserves comprise foreign exchange, acquisition and merger reserves and reserves arising from the cancellation of a share premium account, all arising in the period from 1989 to 1992 The retained earnings of the Company as at 31st December 2007 include £7,528,000 that is distributable (2006 £14,168,000) and £33,136,000 that is non-distributable (2006 £33,136,000) These non-distributable reserves within retained earnings relate to the receipt of a dividend from another Group company as part of a restructuring carried out in 2002, partially offset by subsequent impairments in investments in Group companies

	Share premium account 2006 £000	Share payment reserve 2006 £000	Other reserves 2006 £000	Retained (losses)/ earnings 2006 £000
Group – 2006				
At 1st January 2006	43,224	636	864	(14,565)
Issue of shares	1	–	–	–
Share-based payments	–	315	–	–
Actuarial gains arising in defined benefit pension schemes	–	–	–	3,402
Deferred taxation arising on actuarial losses	–	–	–	(1,020)
Loss for the year	–	–	–	(10,905)
Dividends paid to equity shareholders	–	–	–	(2,629)
Dividend in specie	–	–	–	(16,171)
At 31st December 2006	43,225	951	864	(41,888)

	Share premium account 2006 £000	Share payment reserve 2006 £000	Other reserves 2006 £000	Retained earnings/ (losses) 2006 £000
Company – 2006				
At 1st January 2006	43,224	636	25,750	67,364
Issue of shares	1	–	–	–
Share-based payments	–	315	–	–
Loss for the year	–	–	–	(1,260)
Dividends paid to equity shareholders	–	–	–	(2,629)
Dividend in specie	–	–	–	(16,171)
At 31st December 2006	43,225	951	25,750	47,304

All categories of reserve disclosed above are considered by both Group and Company to be capital in nature Neither the Group nor the Company are subject to any externally imposed capital requirements

29 Statement of changes in equity

	2007 £000	2006 £000
Group		
Net recognised income/(expense)	**8,000**	(8,499)
Shares issued during the year	**30,735**	1
Dividends paid to equity shareholders	**(3,382)**	(2,629)
Dividend in specie	**–**	(16,171)
(Decrease)/increase in share payment reserve	**(20)**	315
Increase/(decrease) in total equity	**35,333**	(26,983)
Elimination of minority interest	**–**	(277)
Total equity at the beginning of the year	**11,915**	39,175
Total equity at the end of the year	**47,248**	11,915

29 Statement of changes in equity continued

	2007 £000	2006 £000
Company		
Net recognised expense	**(3,258)**	(1,260)
Shares issued during the year	**30,735**	1
Dividends paid to equity shareholders	**(3,382)**	(2,629)
Dividend in specie	**–**	(16,171)
(Decrease)/increase in share payment reserve	**(20)**	315
Increase/(decrease) in total equity	**24,075**	(19,744)
Total equity at the beginning of the year	**125,993**	145,737
Total equity at the end of the year	**150,068**	125,993

30 Minority interests

	2007 £000	2006 £000
At 1st January	**–**	253
Share of net profit of subsidiaries	**–**	24
Elimination on disposal	**–**	(277)
At 31st December	**–**	–

31 Note to the cash flow statements

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Continuing operations				
Reconciliation of profit/(loss) to cash generated from operations				
Profit/(loss) after tax for the year	**5,829**	9,569	**(3,258)**	(1,210)
Adjustments for				
Tax expense/(credit)	**3,085**	4,227	**(1,395)**	(1,360)
Finance income	**(213)**	(21)	**–**	–
Finance expense	**4,447**	4,831	**3,954**	4,532
Goodwill and investment impairment	**–**	–	**–**	16,171
Dividend in specie receivable from subsidiary undertaking	**–**	–	**–**	(16,171)
Share-based payments	**(20)**	221	**–**	–
Amortisation of intangible assets	**493**	331	**–**	–
Depreciation of property, plant and equipment	**1,573**	1,859	**–**	–
Loss on sale of property, plant and equipment	**4**	58	**–**	–
Gain on sale of subsidiary undertaking	**(156)**	(1,962)	**–**	(1,962)
Changes in working capital				
Decrease in provisions	**(2,903)**	(1,634)	**–**	–
Decrease/(increase) in trade and other receivables	**610**	(373)	**(7,703)**	17,365
(Decrease)/increase in trade and other payables	**(4,739)**	3,105	**1,121**	–
Cash generated from/(used in) operations	**8,010**	20,211	**(7,281)**	17,365

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash and cash equivalents	**444**	(2,006)	**333**	–
Decrease in loans from banks	**16,000**	11,000	**16,000**	11,000
Decrease/(increase) in bank overdrafts	**2,286**	(5,803)	**–**	–
	18,730	3,191	**16,333**	11,000
Net debt at the beginning of the year	**(76,698)**	(79,889)	**(70,000)**	(81,000)
Net debt at the end of the year	**(57,968)**	(76,698)	**(53,667)**	(70,000)

32 Operating lease commitments

The Group has numerous premises operated under leases whose terms, conditions and expiry dates vary considerably, some of which are no longer occupied by the Group In addition, the Group leases items of plant and equipment and in particular has entered into a contract hire agreement to lease motor vehicles

At 31st December 2007 the total future minimum lease payments under non-cancellable operating leases are as follows

	Plant and equipment including motor vehicles £000	Land and buildings occupied by Group £000	Land and buildings not occupied by Group £000	Total net £000
For leases expiring				
within one year	77	206	21	304
between two and five years	484	4,205	307	4,996
beyond five years	–	5,508	3,898	9,406
	561	9,919	4,226	14,706

At 31st December 2006 the total future minimum lease payments under non-cancellable operating leases are as follows

	Plant and equipment including motor vehicles £000	Land and buildings occupied by Group £000	Land and buildings not occupied by Group £000	Total net £000
For leases expiring				
within one year	107	1,020	59	1,186
between two and five years	907	1,621	956	3,484
beyond five years	–	5,396	1,309	6,705
	1,014	8,037	2,324	11,375

Commitments in respect of operating leases for land and buildings are disclosed net of contracted sub-lease income

33 Employees

	2007 £000	2006 £000
Employee costs for the Group – continuing operations		
Wages and salaries	**112,226**	100,042
Social security costs	**7,608**	6,325
Pension costs	**1,066**	815
Share-based payments	**(20)**	221
	120,880	107,403

	2007 £000	2006 £000
Average number of persons employed – continuing operations		
Full time	**1,521**	1,590
Part time	**7,186**	5,808
	8,707	7,398

	2007 £000	2006 £000
Employee numbers by business segment – continuing operations		
Social Care	**7,515**	6,131
Primary Care	**1,192**	1,267
	8,707	7,398

The Company had no employees (2006 nil) during the year

34 Compensation of directors and key management

	2007 £000	2006 £000
Directors and other key management		
Salaries and short-term employee benefits	**1,888**	2,178
Post-employment benefits	**298**	281
Termination benefits	**107**	304
Share-based payments	**30**	261
	2,323	3,024

	2007 £000	2006 £000
Directors		
Aggregate emoluments	**805**	1,486
Employer contributions to money purchase pension schemes	**41**	35
	846	1,521

Aggregate emoluments of directors include £nil (2006 £175,000) compensation for loss of office

The detailed numerical analysis of directors' aggregate emoluments is included in the tables in the remuneration report on page 30 which form part of these financial statements

35 Pension commitments

The Group has accounted for pensions in accordance with IAS 19 and the disclosures given below are those required by that standard

Group defined benefit pension schemes

The Group operates two funded pension schemes providing benefits based on final pensionable salary The two schemes are the Nestor Healthcare Group Retirement Benefits Scheme (the Nestor Scheme) and the Healthcall Group Limited Pension Scheme (the Healthcall Scheme) Both schemes are closed to new members The schemes are administered by Trustees separately from the affairs of the Group and are contracted out of the additional component of the State Pension Scheme

Neither scheme holds any investment in any financial instrument issued by the Group Neither are any of the schemes' property or other assets occupied or used by the Group

There are no informal practices applied that might give rise to any constructive obligations

Nestor Scheme

Watson Wyatt Limited, consulting actuaries, carried out an actuarial valuation of the Nestor Scheme as at 5th April 2006 On the actuarial basis used, as at that date, the assessed value of the assets was 75% of the value placed on the liabilities in respect of benefits earned to 5th April 2006, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity The funding ratio of 75% represented a shortfall of assets compared with the technical provisions of £6,660,000

The market value of the investments held in the Nestor Scheme as at the valuation date was £20,349,000 In addition there were pensions in payment secured by the purchase of annuities

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow and the rate of increase in pensionable earnings These rates were set relative to an assumed long-term rate of price inflation of 3 0% per annum

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 1 3% per annum relative to price inflation for pensioners and 3 5% per annum before retirement and 1 3% per annum after retirement for non-pensioners Pensionable earnings were assumed to increase on average at a rate of 2 0% per annum ahead of price inflation with promotional increases assumed in addition

The employer's contribution rate, currently 24 2% (39 2% for certain current and past executive directors), is calculated using the projected unit method The shortfall of assets as at 5th April 2006 of £6,660,000 is being met by a schedule of employer contributions designed to eliminate it by no later than April 2013 As the Nestor Scheme is closed to new members, under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement

Healthcall Scheme

Watson Wyatt Limited, consulting actuaries, carried out an actuarial valuation of the Healthcall Scheme as at 1st November 2006 On the actuarial basis used, as at that date, the assessed value of the assets was 62% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity The funding ratio of 62% represented a shortfall of assets compared with the technical provisions of £6,630,000

The market value of the investments held in the scheme as at the valuation date was £10,930,000 In addition there were pensions in payment secured by the purchase of annuities

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return and the rate of increase in pensionable earnings These rates were set relative to an assumed long-term rate of price inflation of 3 0% per annum

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 1 2% per annum relative to price inflation for pensioners and 3 6% per annum before retirement and 1 2% per annum after retirement for non-pensioners Pensionable earnings were assumed to increase on average at the same rate as price inflation

The employer's contribution rate, currently 29 5%, is calculated using the projected unit method The shortfall of assets as at 1st November 2006 of £6,630,000 is being met by a schedule of employer contributions designed to eliminate it by no later than October 2013 As the Healthcall Scheme is closed to new members, under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement

Other schemes

The Group also operates several defined contribution schemes with varying rates of employer contribution

35 Pension commitments continued

	2007 £000	2006 £000
Pension charge		
Current service cost of defined benefit schemes	**573**	605
Group contributions to defined contribution schemes	**381**	284
	954	889
Net finance credit relating to defined benefit schemes	**(182)**	(9)
Pension charge	**772**	880

The current service cost of defined benefit schemes for 2006 is stated net of a curtailment gain of £354,000 which arose on the demerger of the Healthcare Staffing business segment in September 2006, and which materially reduced the liabilities in respect of 28 members of the Nestor Scheme

Until 5th April 2007 the costs of expenses associated with the Nestor Scheme were implicit in both the service cost and the employer contributions payable From 6th April 2007 for the Nestor Scheme, and for the whole year for the Healthcall Scheme, the costs of expenses have not been included in the service cost or the pension charge, being paid direct by the Group and charged elsewhere to the income statement The cost of the expenses associated with the Nestor Scheme from 6th April 2007 onwards was £133,000 (2006 £nil) The cost of the expenses associated with the Healthcall Scheme was £139,000 (2006 £90,000)

At 31st December 2007 £76,000 employer contributions had yet to be paid to the respective schemes (2006 £77,000)

Valuations

The valuation used for IAS 19 disclosures has been based on the results of an actuarial valuation of the Nestor Scheme as at 5th April 2006 and of an actuarial valuation of the Healthcall Scheme as at 1st November 2006, both updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes at 31st December 2007 Assets of the schemes are stated at their market valuation at 31st December 2007

The accounting policy applied in respect of recognised actuarial gains and losses is to account for them immediately and in full within the statement of recognised income and expense

Mortality assumptions

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity The assumptions are equivalent to expected longevity at age 65 for members in normal health approximately as follows

- pensioners currently aged 65 males 21 9 years, females 24 8 years
- non-pensioners currently aged 45 males 23 0 years, females 25 8 years

Commutation assumptions

An allowance has been made in the assumptions adopted as at both 31st December 2007 and 31st December 2006 for members to commute pensions at retirement It has been assumed that members commute 20% of their pension, on the basis of the commutation rates currently in force

	2007	2006
Financial assumptions used to calculate the schemes' liabilities		
Valuation method	**Projected unit**	Projected unit
Discount rate	**5 90%**	5 10%
Inflation rate	**3 30%**	3 00%
Increases to pensions in payment and deferred pensions*	**3 30%**	3 00%
Salary increases	**5 25%**	4 95%

* Different increases assumed for certain elements of pension

	2007	2006
Financial assumptions used to calculate the schemes' net service costs for the year		
Valuation method	**Projected unit**	Projected unit
Discount rate	**5 10%**	4 80%
Inflation rate	**3.00%**	2 80%
Increases to pensions in payment and deferred pensions*	**3.00%**	2 80%
Salary increases	**4 95%**	4 75%

* Different increases assumed for certain elements of pension

	Long-term rate of return expected on 31st December 2007	**Value at 31st December 2007 £000**	Long-term rate of return expected on 31st December 2006	Value at 31st December 2006 £000
Assets in the schemes and the expected rates of return				
Equities	**8 00%**	**25,596**	8 00%	25,321
Bonds	**5 10%**	**7,722**	4 70%	5,918
Other	**5 40%**	**1,420**	5 00%	1,753
Total market value of assets		**34,738**		32,992
Present value of schemes' liabilities		**(41,110)**		(44,982)
Deficit in the schemes – pension liabilities		**(6,372)**		(11,990)
Related deferred tax asset (note 18)		**1,784**		3,597
Net pension liability		**(4,588)**		(8,393)

The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations Consideration is also given to the rate of return expected to be available for reinvestment The overall expected rate of return on assets is derived as the weighted average of the expected returns from each of the main asset classes

	2007 £000	2006 £000
Movement in the deficit in the schemes during the year		
Deficit in the schemes at the beginning of the year	**(11,990)**	(16,221)
Contributions paid	**2,742**	1,425
Current service cost	**(573)**	(605)
Net finance credit	**182**	9
Actuarial gain	**3,267**	3,402
Deficit in the schemes at the end of the year	**(6,372)**	(11,990)

Components of defined benefit cost for the year

	2007 £000	2006 £000
Analysis of amounts charged to operating profit		
Current service cost	**573**	605
Analysis of amounts charged to finance expense		
Interest on pension scheme liabilities	**2,282**	2,212
Expected return on assets in the pension scheme	**(2,464)**	(2,221)
Net credit to finance expense	**(182)**	(9)
Total income statement charge before deduction for tax	**391**	596

35 Pension commitments continued

	2007 £000	2006 £000
Analysis of amounts recognised in the statement of recognised income and expense		
Actual return on assets	**808**	2,645
Expected return on assets	**(2,464)**	(2,221)
Actuarial (loss)/gain on assets	**(1,656)**	424
Experience gains arising on the scheme liabilities	**4,923**	2,978
Actuarial gain recognised in the statement of recognised income and expense	**3,267**	3,402

	2007 £000	2006 £000
Reconciliation of the present value of defined benefit obligation ("DBO")		
Present value of DBO at the beginning of the year	**44,982**	45,866
Service cost	**573**	605
Interest cost	**2,282**	2,212
Employee contributions	**119**	161
Actuarial gain	**(4,923)**	(2,978)
Actual benefit payments including expenses	**(1,923)**	(1,342)
Adjustment to value placed on insurance policies	**–**	458
Present value of DBO at the end of the year	**41,110**	44,982

	2007 £000	2006 £000
Reconciliation of the fair value of assets		
Present value of assets at the beginning of the year	**32,992**	29,645
Expected return on assets	**2,464**	2,221
Actuarial (loss)/gain	**(1,656)**	424
Group contributions	**2,742**	1,425
Employee contributions	**119**	161
Actual benefit payments including expenses	**(1,923)**	(1,342)
Adjustment to value placed on insurance policies	**–**	458
Fair value of assets at the end of the year	**34,738**	32,992

	2007 £000	2006 £000
History of experience adjustments		
Present value of defined benefit obligations	**(41,110)**	(44,982)
Fair value of scheme assets	**34,738**	32,992
Deficit in the schemes at the end of the year	**(6,372)**	(11,990)

	2007	2006	2005
Experience gains/(losses) on scheme liabilities			
Amount (£000)	**4,923**	2,978	(4,306)
Percentage of present value of scheme liabilities	**12 0%**	6 6%	(9 4%)
Experience (losses)/gains on scheme assets			
Amount (£000)	**(1,656)**	424	3,252
Percentage of present value of scheme assets	**(4 8%)**	1 3%	11 0%

The cumulative amount of actuarial gains, net of losses, recognised in the statement of recognised income and expense since adoption of IFRS is £5,467,000 (2006 £2,200,000)

36 Share-based payments

Fair values have been calculated and charged to operating profit for all share-based payments These consist of grants of shares and share options under various schemes to directors, key managers and other employees Assumptions used and results of the fair value calculations are set out below

	Exercise price pence	Shares under option at 01 01 06	Shares under option at 31 12 06	**Shares under option at 31 12 07**	Vesting periods
Savings Related Share Option Scheme – 2003 awards	147 63	214,942	38,886	**11,122**	3 to 5 years
Savings Related Share Option Scheme – 2004 awards	147 48	157,959	103,279	**–**	3 years
Savings Related Share Option Scheme – 2005 awards	113 84	429,230	212,603	**155,015**	3 to 5 years
Savings Related Share Option Scheme – 2007 awards	140 04	–	–	**237,935**	3 to 5 years
Share Option Plan 2002 – 2003 awards	256 98 and 282 82	243,748	208,248	**176,934**	3 years
Share Option Plan 2002 – 2005 awards	143 53 and 107 59	1,559,057	1,214,509	**1,013,551**	3 years
Long-term Incentive Plan – deferred shares – 2004 award	–	13,076	13,076	**–**	3 years
Long-term Incentive Plan – matching shares – 2004 award	–	55,405	55,405	**–**	3 years
Long-term Incentive Plan – deferred shares – 2005 award	–	27,923	27,923	**35,901**	3 years
Long-term Incentive Plan – matching shares – 2005 award	–	158,652	156,652	**–**	3 years
Performance Share Plan – 2006 award	–	–	952,930	**1,014,179**	3 years
Performance Share Plan – 2007 award	–	–	–	**636,217**	3 years
		2,859,992	2,983,511	**3,280,854**	

Assumptions

The share price used in the calculation of fair value has in each case been the share price on the date of grant

SAYE awards must be exercised within six months of vesting Assumed life terms have accordingly been set at either 3 25 years or 5 25 years for these awards Share Option Plan 2002 awards may be exercised within three to 10 years from the date of award Exercise of these options is assumed to be spread through this period Fixed three-year terms have been assumed for the Long-term Incentive Plan ("LTIP") and Performance Share Plan ("PSP") awards

The expected volatility is based on historical volatility over periods which correspond to the forward life assumptions for each category of award, being 3 25 to 5 25 years for SAYE awards, six years effective average for Share Option Plan 2002 awards and three years for LTIP and PSP awards Two periods of exceptional volatility have been excluded, with additional historical data substituted in their place

The risk-free rate of interest assumed is the rate of interest obtainable from government securities over the same expected terms as have been used for the volatility calculations

The dividend yield assumed has been calculated using publicly available information at the respective grant dates, being the historical dividend yield

The LTIP matching shares awards and PSP award are subject to a total shareholder return ("TSR") vesting condition This condition has been allowed for in the calculations of fair value

Lapsing rates of 10% per annum have been assumed for SAYE awards, 7 5% per annum for Share Option awards and 0% for LTIP and PSP awards

The options outstanding at 31st December 2007 had a weighted average remaining contractual life of 5 4 years (2006 6 2 years)

Notes to the financial statements continued

for the year ended 31st December 2007

36 Share-based payments continued

Results of calculations of fair value

The fair value of share-based transactions has been calculated using a stochastic simulation modelling technique, developed in consultation with an independent third party advisor The credit so calculated for 2007 is £20,000 (2006 charge of £315,000) The elements of this (credit)/charge analysed by share-based transaction are as follows

	Fair value of one option £	**Total fair value charge/ (credit) 2007 £000**	Total fair value charge/ (credit) 2006 £000
Savings Related Share Option Scheme – 2003 awards	0 47	**3**	8
Savings Related Share Option Scheme – 2004 awards	0 54	**5**	18
Savings Related Share Option Scheme – 2005 awards	0 69 and 0 73	**35**	37
Savings Related Share Option Scheme – 2007 awards	0 91 and 1 05	**27**	–
Share Option Plan 2002 – 2003 awards	0 72 and 0 87	**–**	–
Share Option Plan 2002 – 2005 awards	0 48 and 0 43	**–**	178
Long-term Incentive Plan – deferred shares – 2004 award	1 81	**–**	6
Long-term Incentive Plan – matching shares – 2004 award	0 83	**–**	15
Long-term Incentive Plan – deferred shares – 2005 award	1 44	**–**	9
Long-term Incentive Plan – matching shares – 2005 award	0 85	**–**	45
Performance Share Plan – 2006 award	0 84	**251**	180
Performance Share Plan – 2007 award	1 07	**174**	–
Writebacks of charges taken in prior years		**(515)**	(181)
Total (credit)/charge		**(20)**	315

	Total fair value credit 2007 £000	Total fair value charge 2006 £000
(Credited)/charged to continuing operations	**(20)**	221
Charged to discontinued operations	**–**	94
Total (credit)/charge	**(20)**	315

Where earnings per share targets defined within plan rules were not met, amounts previously charged have been credited back to the income statement

37 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year Share options in issue expire after a certain time and exercise dates vary Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years In addition, achievement of performance targets is normally required in all schemes except the SAYE Scheme

During the year to 31st December 2007 an adjustment was made to the number of options in issue so as to add a proportion, calculated to be 6 4274%, equivalent to the bonus element of the March 2007 rights issue Associated with this, an adjustment was also made to the exercise price of each option in issue to reduce that by the same proportion

The weighted average share price for share options exercised during the period was 183p (2006 121p)

The number of options that had vested and were exercisable at 31st December 2007 was 643,079 (2006 845,805) The average exercise price of these vested and exercisable options was 308 82p at 31st December 2007 (2006 341 83p)

Movements in the year to 31st December 2007 were as follows

	Date of issue	Adjusted option price pence	In issue 1st Jan 2007	Adjustment of 6 4274% in the year	Granted in the year	Exercised in the year	Lapsed in the year	**In issue 31st Dec 2007**
Company Share Option Plan 1996								
	April 1998	222 22	4,661	300	–	–	–	**4,961**
	October 1998	319 00	4,602	296	–	–	(4,898)	**–**
	April 1999	382 89	7,998	514	–	–	(3,102)	**5,410**
	October 1999	560 48	12,915	830	–	–	(4,947)	**8,798**
	May 2000	399 33	59,110	3,799	–	–	(15,721)	**47,188**
	March 2001	509 74	12,248	787	–	–	(4,125)	**8,910**
	October 2001	479 20	11,764	756	–	–	(6,260)	**6,260**
	April 2002	511 15	11,028	709	–	–	(5,869)	**5,868**
			124,326	7,991	–	–	(44,922)	**87,395**
Employee Share Option Scheme 1996								
	April 1998	222 22	6,183	397	–	–	–	**6,580**
	April 1999	382 89	8,285	533	–	–	–	**8,818**
	May 2000	399 33	57,260	3,680	–	–	(6,196)	**54,744**
	March 2001	509 74	42,844	2,754	–	–	(12,832)	**32,766**
	October 2001	479 20	47,353	3,044	–	–	(45,910)	**4,487**
	April 2002	511 15	39,522	2,540	–	–	(16,629)	**25,433**
			201,447	12,948	–	–	(81,567)	**132,828**
Share Option Plan 2002								
	July 2002	251 35	130,297	8,375	–	–	(12,950)	**125,722**
	October 2002	199 67	171,764	11,040	–	–	(62,604)	**120,200**
	June 2003	256 98	112,248	7,215	–	–	–	**119,463**
	November 2003	282 82	96,000	6,170	–	–	(44,699)	**57,471**
	January 2005	143 53	1,122,806	72,167	–	(119,160)	(159,859)	**915,954**
	November 2005	107 59	91,703	5,894	–	–	–	**97,597**
			1,724,818	110,861	–	(119,160)	(280,112)	**1,436,407**
Savings Related Share Option Scheme								
	April 2001	420 19	4,073	–	–	–	(4,073)	–
	April 2002	427 33	9,019	–	–	–	(9,019)	**–**
	April 2003	147 63	38,886	671	–	(8,108)	(20,327)	**11,122**
	April 2004	147 48	103,279	–	–	(26,620)	(76,659)	–
	April 2005	113 84	212,603	9,216	–	(19,162)	(47,642)	**155,015**
	May 2007	140 04	–	–	280,100	–	(42,165)	**237,935**
			367,860	9,887	280,100	(53,890)	(199,885)	**404,072**
Total			2,418,451	141,687	280,100	(173,050)	(606,486)	**2,060,702**

Notes to the financial statements continued

for the year ended 31st December 2007

37 Share option schemes continued

Movements in the year to 31st December 2006 were as follows

	Date of issue	Option price pence	In issue 1st Jan 2006	Adjustment in the year	Granted in the year	Exercised in the year	Lapsed in the year	**In issue 31st Dec 2006**
Company Share Option Plan 1996								
	April 1998	236 50	4,661	–	–	–	–	**4,661**
	October 1998	339 50	4,602	–	–	–	–	**4,602**
	April 1999	407 50	7,998	–	–	–	–	**7,998**
	October 1999	596 50	12,915	–	–	–	–	**12,915**
	May 2000	425 00	85,876	–	–	–	(26,766)	**59,110**
	March 2001	542 50	24,526	–	–	–	(12,278)	**12,248**
	October 2001	510 00	17,646	–	–	–	(5,882)	**11,764**
	April 2002	544 00	11,028	–	–	–	–	**11,028**
			169,252	–	–	–	(44,926)	**124,326**
Employee Share Option Scheme 1996								
	April 1998	236 50	48,466	–	–	–	(42,283)	**6,183**
	April 1999	407 50	20,417	–	–	–	(12,132)	**8,285**
	May 2000	425 00	106,469	–	–	–	(49,209)	**57,260**
	March 2001	542 50	66,006	–	–	–	(23,162)	**42,844**
	October 2001	510 00	49,314	–	–	–	(1,961)	**47,353**
	April 2002	544 00	39,522	–	–	–	–	**39,522**
			330,194	–	–	–	(128,747)	**201,447**
Share Option Plan 2002								
	July 2002	267 50	201,304	–	–	–	(71,007)	**130,297**
	October 2002	212 50	171,764	–	–	–	–	**171,764**
	June 2003	273 50	112,248	–	–	–	–	**112,248**
	November 2003	301 00	131,500	–	–	–	(35,500)	**96,000**
	January 2005	152 75	1,467,354	–	–	–	(344,548)	**1,122,806**
	November 2005	114 50	91,703	–	–	–	–	**91,703**
			2,175,873	–	–	–	(451,055)	**1,724,818**
Savings Related Share Option Scheme								
	April 2001	447 20	10,106	–	–	–	(6,033)	**4,073**
	April 2002	454 80	10,528	–	–	–	(1,509)	**9,019**
	April 2003	157 12	214,942	–	–	–	(176,056)	**38,886**
	April 2004	156 96	157,959	–	–	–	(54,680)	**103,279**
	April 2005	121 16	429,230	–	–	(469)	(216,158)	**212,603**
			822,765	–	–	(469)	(454,436)	**367,860**
Total			3,498,084	–	–	(469)	(1,079,164)	**2,418,451**

Five year summary

	As stated historically		Continuing operations		
	2003 £000	2004 £000	2005 £000	2006 £000	**2007 £000**
Group income statement					
Revenue	423,161	389,839	205,724	172,640	**179,623**
Operating profit/(loss)	20,392	(41,920)	17,433	18,606	**13,148**
Exceptional items	(2,680)	–	–	–	**–**
Profit/(loss) before net finance expense	17,712	(41,920)	17,433	18,606	**13,148**
Net finance expense	(4,110)	(5,608)	(5,642)	(4,810)	**(4,234)**
Profit/(loss) before taxation	13,602	(47,528)	11,791	13,796	**8,914**
Tax expense	(4,353)	(2,364)	(3,140)	(4,227)	**(3,085)**
Profit/(loss) for the year	9,249	(49,892)	8,651	9,569	**5,829**
Profit/(loss) attributable to shareholders	9,202	(50,010)	8,448	9,545	**5,829**
Profit attributable to equity minority interests	47	118	203	24	**–**
Profit/(loss) for the year	9,249	(49,892)	8,651	9,569	**5,829**
Basic earnings/(loss) per 10p share	9 88p	(53 62p)	9 28p	10 26p	**5 39p**

The results for 2005, 2006 and 2007 are for continuing operations only It has not been practicable to restate prior years to exclude the now discontinued operations, hence results for these years are stated without amendment from those previously reported

The results for 2004, 2005, 2006 and 2007 are presented consistent with the application of IFRS The results for 2003 are presented consistent with UK GAAP as had then been applied Results for 2003 are not therefore directly comparable with those for subsequent years

In particular, material differences are as follows

- Items that would have been charged to exceptional items under UK GAAP were charged to operating profit under IFRS in 2004,
- Goodwill amortisation that was charged under UK GAAP in 2003 was not charged under IFRS in 2004, 2005, 2006 or 2007,
- Intangible assets have been recognised and amortised under IFRS in 2004, 2005, 2006 and 2007,
- A charge for share-based payments has been made under IFRS in 2004, 2005, 2006 and 2007, and
- Charges relating to defined benefit pension schemes have been calculated differently under IFRS than had been the case under UK GAAP

The 2004 operating loss is stated after charging £62,021,000 that had been accounted for as exceptional items, including goodwill impairment, under UK GAAP

Earnings/(loss) per share figures for 2006 and prior years have been adjusted to allow for the bonus element of the rights issue made in 2007

	2003 £000	2004 £000	2005 £000	2006 £000	**2007 £000**
Group balance sheet					
Goodwill	161,085	114,199	113,839	84,369	**97,191**
Other intangible assets	–	641	739	408	**485**
Property, plant and equipment	12,968	7,534	5,105	3,647	**3,558**
Other non-current assets	–	6,629	7,336	5,710	**2,964**
Total non-current assets	174,053	129,003	127,019	94,134	**104,198**
Current assets excluding cash	61,496	50,928	39,632	28,031	**29,682**
Current and non-current liabilities excluding borrowings	(57,284)	(64,085)	(47,587)	(33,552)	**(28,664)**
Net operating assets	178,265	115,846	119,064	88,613	**105,216**
Net borrowings	(89,344)	(84,622)	(79,889)	(76,698)	**(57,968)**
Net assets	88,921	31,224	39,175	11,915	**47,248**
Share capital	8,763	8,763	8,763	8,763	**11,284**
Share premium account	43,222	43,224	43,224	43,225	**71,439**
Other reserves	37,004	(20,813)	(13,065)	(40,073)	**(35,475)**
Equity shareholders' funds	88,989	31,174	38,922	11,915	**47,248**
Equity minority interests	(68)	50	253	–	**–**
Total equity	88,921	31,224	39,175	11,915	**47,248**

	As stated historically		**Continuing operations**		
	2003 £000	2004 £000	2005 £000	2006 £000	**2007 £000**
Group cash flow statement					
Net cash inflow from operating activities before exceptional items	24,990	26,692	20,177	20,211	**8,010**
Cash flow from exceptional items	(1,899)	–	–	–	**–**
Interest paid, net	(3,744)	(5,556)	(5,526)	(4,495)	**(4,202)**
Tax paid	(5,711)	(3,930)	(4,390)	(4,513)	**(2,277)**
Capital expenditure, net	(5,730)	(2,543)	(326)	(1,109)	**(1,475)**
Acquisitions and disposals	(29,285)	(4,562)	(3,735)	749	**(8,679)**
Equity dividends paid	(8,420)	(5,381)	(2,190)	(2,629)	**(3,382)**
Issue of shares	216	2	–	1	**30,735**
Increase/(decrease) in loans and overdrafts	25,229	(6,671)	(3,614)	(5,197)	**(18,286)**
(Decrease)/increase in cash	(4,354)	(1,949)	396	3,018	**444**

The cash flows for 2005, 2006 and 2007 are for continuing operations only It has not been practicable to restate prior years to exclude the now discontinued operations, hence cash flows for these years are stated without amendment from those previously reported

The figures for 2004, 2005, 2006 and 2007 are presented consistent with the application of IFRS The figures for 2003 are presented consistent with UK GAAP as had then been applied Figures for 2003 are not therefore directly comparable with those for subsequent years

In particular, material differences are as follows

- Items that would have been charged to exceptional items under UK GAAP were charged to operating profit under IFRS in 2004,
- Goodwill amortisation that was charged under UK GAAP in 2003 was not charged under IFRS in 2004, 2005, 2006 and 2007,
- Intangible assets have been recognised and amortised under IFRS in 2004, 2005, 2006 and 2007, and
- Deficits relating to defined benefit pension schemes have been incorporated into balance sheets under IFRS

Shareholder information

Financial calendar

Announcement of 2008 results (provisional)	
For the half-year	August 2008
For the year	March 2009
Annual Report and Accounts circulated	March 2009
Annual General Meeting	May 2009

Dividends

Proposed final dividend 2007	
Announcement	10th April 2008
Ex-dividend	25th June 2008
Record date	27th June 2008
Payment date	25th July 2008
Interim dividend 2008 (provisional)	
Announcement	August 2008
Payment	October 2008

Analysis of shareholdings

On 1st April 2008 (the latest practicable date for analysis), the Company had 1,091 shareholders who held 112,844,209 shares between them, analysed as follows

	Number of shareholders	% of shareholders	Number of shares	% of shares
Size of holding				
1 – 5,000	839	76 90	854,604	0 76
5,001 – 50,000	165	15 13	2,508,103	2 22
50,001 – 100,000	27	2 47	2,071,894	1 84
100,001 and over	60	5 50	107,409,608	95 18
	1,091	100 00	112,844,209	100 00
Type of shareholder				
Individuals	772	70 76	1,912,613	1 69
Nominee companies*	276	25 30	106,635,247	94 50
Other corporate and public bodies	43	3 94	4,296,349	3 81
	1,091	100 00	112,844,209	100 00

* This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts

Share registrar

The Company's registrar is Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

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